Stewardship and responsible investment report 2023

Responsible investing. Meeting the challenge, together

ROYAL LONDON
ASSET MANAGEMENT

Contents

At Royal London Asset Management, we do things a little differently.

We take a distinct approach to active management. As an integral part of customer-owned mutual Royal London, we're free from short-term shareholder demands. Instead, we put our clients at the heart of what we do, using a longer-term perspective to generate investment returns.

It's a different pressure to perform and we thrive on it. As active long-term investors, we create solutions with the right balance of risk and return. Our consistent track record across asset classes speaks for itself.

We are independent, responsible investors. Entrusted with other people's money, we embrace the influence we have as stewards of our clients' capital, for the mutual benefit of our clients and wider society. We are dedicated to delivering for our clients around the world. Building a better future, together.

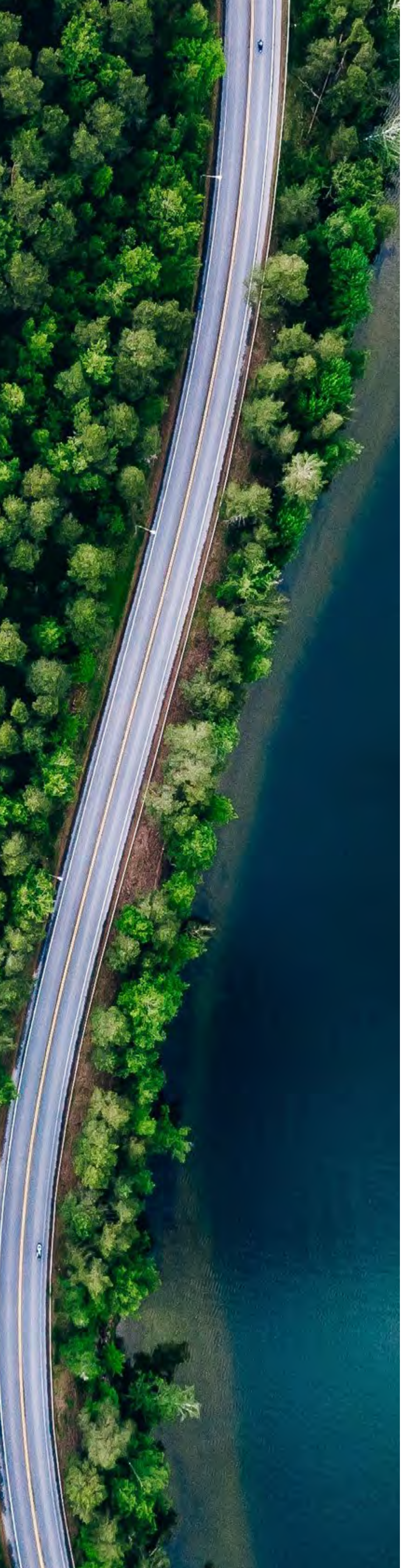
It's asset management excellence with a longer-term perspective.

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.

In February 2024 we were named 'Responsible Investor of the Year – Asset Manager' at the Insurance Asset Risk Awards. The awards recognise achievements in insurance asset management across UK and European markets over the previous year.

Published: 30 April 2024

All data correct as at 31 December 2023 unless stated otherwise.



Foreword

Hans Georgeson
Chief Executive Officer

As the world becomes more complex and interconnected, our role as active managers in creating long-term value for our clients is becoming more important than ever. Responsible investing is critical for delivering on this commitment.

The past year has seen further growing interest in what we do. We welcome the growing interest in our work from clients, the media and regulators. We welcome the increased emphasis on responsible investment right across the spectrum. In our view, there is no 'one way' to do responsible investment, but we are adamant that transparency is a non-negotiable: we want to talk to our stakeholders to understand their concerns but also want to be clear about what we can and cannot deliver. We also want to share our successes and our challenges. That is the essence of this report.

Being good stewards of other people's capital is a major part of our history and a vital part of our future. It aligns with the strategic aims of the Royal London Group of companies and our parent Royal London Mutual Insurance Society, whose mutual status makes a strong responsible investment ethos a natural fit.

It also fits with our growing and diverse external client base, who are increasingly looking to hold us to account in how we discharge our stewardship duties. They are increasingly seeking just as much detail on responsible investing and stewardship as they do around our portfolio performance.

This speaks to the long-term nature of many of these issues, and we want to make sure we use our voice for positive change on issues such as climate, social inclusion and how companies are managed.

We believe that effective responsible investment can help society and produce better results for our clients over the long term. We recognise the opportunities in this area: that is why we will continue to evolve our approach, investing in our people and infrastructure as we play our part in moving fairly to a sustainable world. We think of it as asset management excellence with a longer-term perspective.

Doing the right thing so we can build a better future together

2023 highlights

Net zero
We engaged 223 companies on climate in 2023, with 36 selected for further engagement to promote meaningful action on net zero.

See page 24

Labelled bonds
We continued to look behind 'green', 'social' and 'sustainability-linked' bond labels, deciding to purchase only if the true sustainability value of an investment meets our expectations.

See page 61

Inclusive future
We furthered our work with banks, social housing and the energy sector on the unintended social impacts of climate transition plans, helping shape a 'just transition' to a low-carbon economy.

See page 29

Commodities
We collaborated with Bloomberg to integrate ESG factors into commodity investing, helping create the world's first carbon-tilted commodity index and exchange traded fund.

See page 88

Property
We supported sustainable property development and refurbishment through projects such as the Earnshaw building, which has achieved high environmental and wellbeing standards.

See page 82

Water utilities
We grew our engagement programme with 11 UK water utility companies on key challenges including climate change, biodiversity and balancing infrastructure investment with affordability.

See page 74

Our investment principles
Our principles are a reflection of our fundamental approach to investing actively for the benefit of our clients

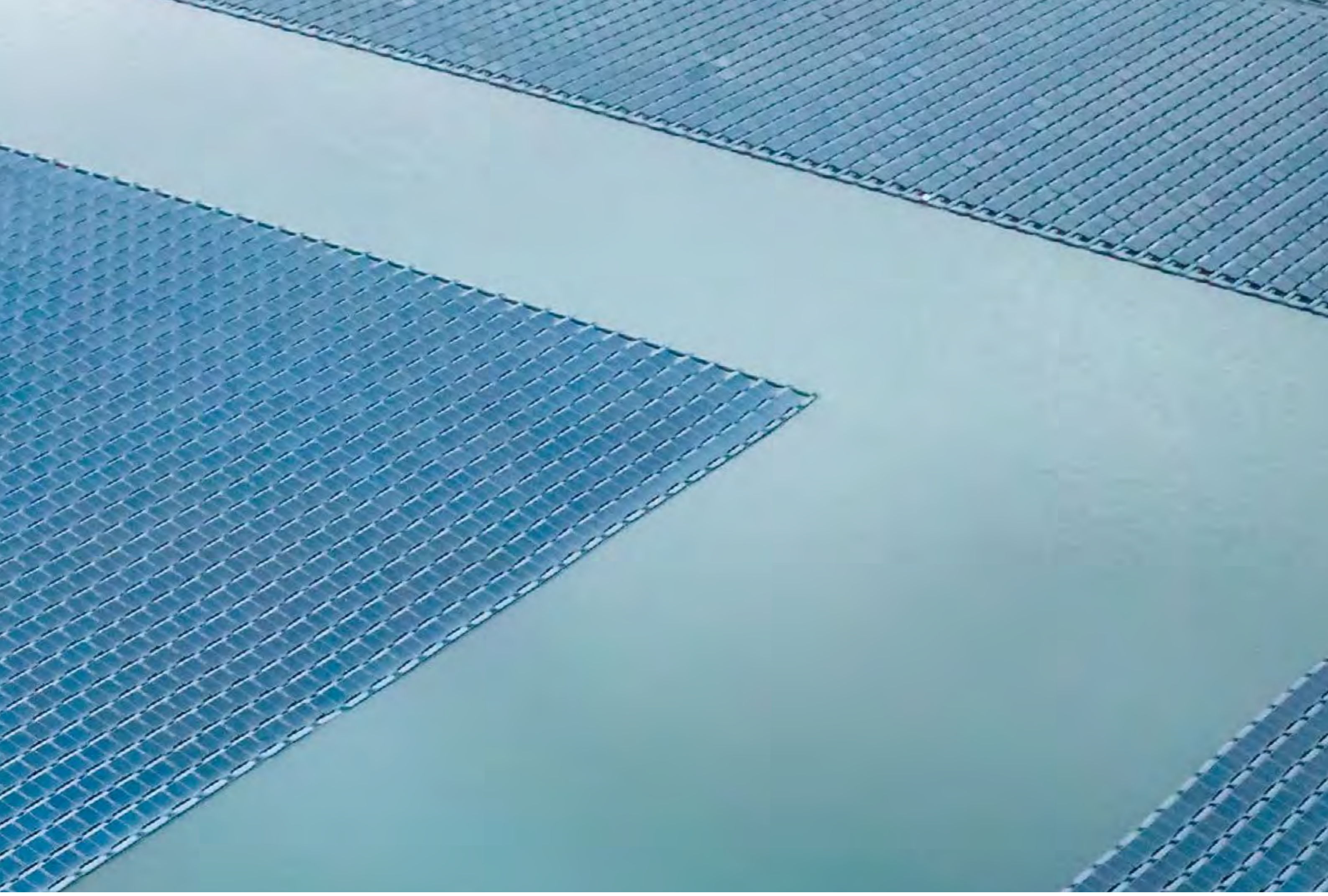
Differentiated active approach
Open-minded, independent and long-term

Distinct culture
Empowered teams, expert central functions

Trusted stewards
Passionate about responsible investment

Purpose driven
Doing the right thing, building a better future

See page 42 for more about our investment principles



Our vision and strategy

At Royal London Asset Management, it is our vision to be a leading global active asset manager that puts clients at the heart of what we do. To achieve this, we seek to grow our third-party business, continue to build an organisation of the future, deliver a first-class client experience and demonstrate our passionate commitment to responsible investing.

Investment principles in action

In 2023, we developed our investment principles that describe our approach to being responsible long-term investors. Being a trusted steward of our clients' capital is core to our approach. This report showcases examples of how we have done this in practice – using our voice and voting rights to act as powerful stewards and helping produce better results for our clients.

We manage

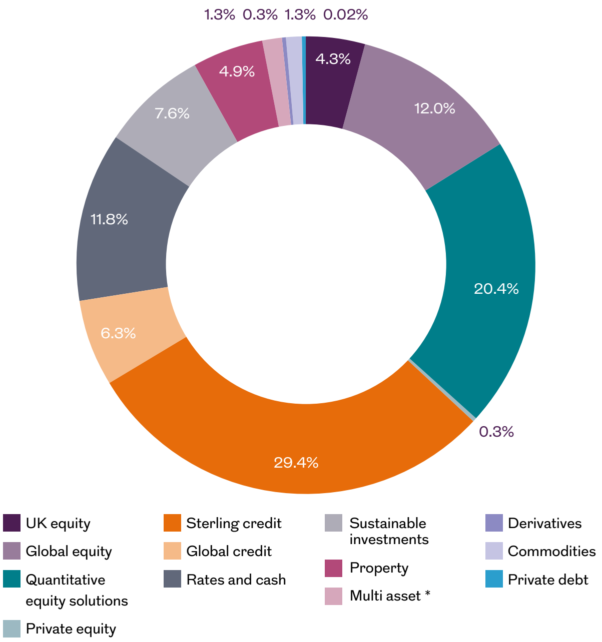
£162bn

assets across all major asset classes

Value correct as at 31 December 2023

Assets under management

Total of assets actively managed by Royal London Asset Management



* See page 86 for a full breakdown of our multi assets

What makes us different

We put our clients at the heart of what we do, using a longer-term perspective to generate investment returns.

A diverse asset management proposition

We provide diverse investment strategies. This includes strategies such as cash, equities, fixed income, property, multi asset and absolute return, including equity and fixed income funds.

As a subsidiary of Royal London Mutual Insurance Society Limited (RLMIS) and a part of the Royal London Group, we manage around 95% of RLMIS assets. We also offer active investment management services to external clients, including corporate pension schemes, local authorities, insurance companies, endowments, charities, universities and various financial intermediaries.

£54.5bn

managed for external clients

See more on page 97

Expertise in active management

Our investment approach is evidence-based and research-led, focusing on the unique attributes of companies, informed but not driven by macroeconomic factors. While market indices serve as benchmarks, they do not dictate our active portfolio construction. We generate diverse ideas to optimise risk and return for clients without fear of our funds looking different to the index. We offer active investment selection and fundamental analysis as well as quantitative environmental, social and governance (ESG) and climate-tilted strategies, aiming for benchmark-equivalent returns with ESG integration. We use a differentiated active approach, underpinned by the belief that market inefficiencies provide investors with exploitable opportunities in diversified portfolios.

4

investment principles guide our approach

See more on page 42

Leveraging the expertise of our Responsible Investment team

We believe that well-managed companies are better investments. That is why, for over two decades, we have been pioneering sustainable investing, integrating ESG criteria long before it became mainstream in asset management. Our Responsible Investment team, comprising specialists in sustainability and ESG, collaborates closely with our investment teams to integrate ESG factors into investment decisions, consult on proxy voting, and drive improvements in the companies we invest in. We describe our approach to responsible investment in depth on page 91.

18

dedicated responsible investment colleagues

See more on page 8 onwards

Actively influencing the companies we invest in

Recent global events, from natural disasters to geopolitical conflicts, have highlighted the importance of responsible investing. These issues increasingly influence asset prices and are a growing concern for our investors. As active owners and trusted stewards, we engage with the companies we invest in, covering a spectrum of activities from voting at company meetings to addressing issues like executive pay, cyber security and environmental conservation. This comprehensive approach to engagement and stewardship reflects our commitment to serving our clients' interests and promoting positive outcomes for our society and the environment.

443

companies engaged in 2023

See more on page 13

An integral part of the Royal London Group

Being purpose-driven is essential to how we do things. We work continuously to retain the trust our clients have placed in us. We do this by doing the right thing for the future, for both our clients and broader society. Our largest client – the Royal London Group – shares our focus on improving long-term outcomes, providing us with a strong foundation for forward-thinking, responsible investment.

£106bn

of RLMIS assets

See more on page 97

Aligned to the long-term interests of our colleagues, members and clients

As Royal London Group is a mutual, eligible customers can benefit from sharing in our success. Our ProfitShare scheme is our mechanism for rewarding eligible customers directly. Many of our colleagues are members of our mutual through our pension scheme and invest in Royal London funds, aligning our interests with our members and those of our clients.

Our mutuality sets us apart in asset management. It empowers our long-term time horizon and independent vision. It enables us to deliver good financial outcomes and invest responsibly for broader society.

Since 2007

we have shared returns with eligible customers through ProfitShare

Read more in Royal London Group's Annual Report and Accounts

Our shared Purpose defines the impact we want to have

Our Purpose is the force that drives our ambition, and it defines the impact we want to have on the world. It shapes what we do on behalf of our members and customers, financial advisers, our colleagues and the communities in which we operate. Through our Purpose, we are very deliberate about the role we will play and the difference we intend to make for the benefit of our members, customers and wider society.

More about the Royal London Group and our shared Purpose:

- Royal London Group's Annual Report and Accounts
- Royal London website

3

positive outcomes we want to achieve by using our mutuality for good

Read more on Royal London's website

Embracing our corporate responsibility

We extend responsible investment beyond our engagement with our portfolio companies to how we conduct ourselves. As the UK's largest life, pensions and investment mutual, we embrace our ability to make broader social contributions alongside how we invest our clients' assets.

A key element in our success as a business is an effective approach to diversity and inclusion. We focus on attracting the best talent with aligned values and goals, fostering an open, friendly workplace. Being a fair, diverse and inclusive employer is crucial to our business success. Initiatives like the Women in Finance Charter reflect our ongoing commitment.

4

inclusion networks to advance diversity

See more on page 96

A track record of active investing

1988
Royal London Asset Management was created

1990
Cooperative Asset Management launched **first environmental fund**

1999
Cooperative Asset Management adopted new **sustainable investment research process** and launched more funds

2002
Cooperative Asset Management published first **voting record online**

2008
Became a signatory to the UN-supported **Principles for Responsible Investment** (PRI)

2012
Signed up to the **Financial Reporting Council (FRC) Stewardship Code**

2014
Acquired Cooperative Asset Management, including its **sustainable fund range** and in-house team of **responsible investment experts**

2014
Published first **Stewardship Statement**

2015
Centralised proxy voting under one team and issued **new Proxy Voting Policy**

2016

Independent Responsible Investment function created, reporting to the Chief Investment Officer

2017

Launched two global equity funds that integrate environmental, social and governance (ESG) issues into investment decisions

Launched Emerging Markets ESG Tracker Fund

2019

Significant growth of the central Responsible Investment team. Recruited a senior climate and engagement role and two governance analysts

2020

Published first Task Force on Climate-related Financial Disclosures (TCFD) report

Launched Global Sustainable Equity Fund

2021

Launched Global and European Sustainable Credit Funds

Transitioned range of passive equity funds to active ESG and lower carbon tilt funds

Became signatories of the FRC's new Stewardship Code

2022

Published target disclosure on Net Zero Asset Management initiative (NZAM)

Launched Global Equity Transitions Fund

Launched Sustainable Growth Fund and Sustainable Short Duration Corporate Bond Fund

Sterling Liquidity Money Market fund became an Article 8 fund under SFDR

2023

Launched Japan and US Equity Tilt tax transparent funds (TTFs)

Launched Emerging Market Corporate Bond Fund and Short Duration Emerging Market Corporate Bond Fund

Stewardship and responsible investment

Responsible investment

Meeting the challenge, together

At Royal London Asset Management, responsible investment is a major part of our history and a vital part of our future.

As part of a mutual group, responsible investment is a natural fit and key element in delivering our Group purpose – Protecting today, investing in tomorrow. Together we are mutually responsible. Benefitting from the stability of being part of the UK's largest life, pensions and investment mutual we can take a longer-term view, ensuring we are well placed to invest responsibly and champion positive, enduring change.

We believe we have a strong track record in this area. We were among the first signatories of the United Nations-supported Principles for Responsible Investment, launched our Sustainable fund range more than two decades ago, and have an established track record in voting and engagement – using our voice and voting rights to act as powerful stewards of our clients' investments.

For our investment teams, being a responsible investor means integrating the environmental, social and governance factors into our active investment decisions. We tailor this approach to consider the nuances of the assets we manage because we think that this is in the best interests of our clients to improve standards, reduce risk and enhance returns in their investment portfolios. 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 they know what our approach is delivering.

We believe that effective responsible investment helps society and produces better results for our investors. We recognise the opportunities in this area: that's why we will continue to evolve our approach, investing in our people and infrastructure as we play our part in moving fairly to a sustainable world. It's asset management excellence with a longer-term perspective.

"We pride ourselves in being good stewards of our clients' capital. It is core to who we are and a distinctive feature of our investment principles."

Ashley Hamilton Claxton,
Head of Responsible Investment

Stewardship and responsible investment

As responsible investors and good stewards of our clients' capital, we actively promote strong governance and forward-thinking environmental, social and governance (ESG) practices across our assets.

Our engagement, research, voting and advocacy helps to add value and meaning to our investment decisions and, over the long term, help us deliver better returns for our clients and customers.

Navigating increasing complexity

We help our clients navigate regulatory complexities and consumer demands for transparency. We collaborate with governments, regulators and stakeholders to tackle ESG challenges and to secure the best outcomes for our customers and clients.

Providing the tools to make responsible decisions

We continuously align our practices with evolving ESG standards, improving our integration across asset classes. Working with our investment teams, we develop the knowledge, analytical tools, governance and expertise to help manage risks and capitalise on opportunities, particularly in the face of systemic ESG challenges like climate change.

Four core practices drive our stewardship

Engagement

Building a better future, together

2023 focus: Net zero, just transition, mental health, corporate governance, biodiversity

Research

Adapting to a new landscape and exploring new ideas

2023 focus: Measuring sustainability outcomes and developing tools to analyse biodiversity challenges

Voting

Using our voice as shareholders

2023 focus: Reviewing and consolidating our voting policy and deep analysis of climate votes

Advocacy

Channelling our expertise and advice

2023 focus: Advice on new fund labels in the UK, supporting voting transparency, setting climate reporting standards

Our approach

Piers Hillier
Chief Investment Officer

‘Know your companies’ is something of a truism in investment management. But in an age of apparently limitless information, it is not always easy. We believe that fundamental research and deep-dive analysis is what sets us apart.

We believe in taking an active approach to both investment decisions and stewardship. Being a trusted steward is one of our new investment principles, which we developed this year. You can read more about these on page 42. Our principles are what unite us in our approach. These recognise the importance of integrating ESG factors into our investment decisions and being stewards of our clients’ capital. But we are pragmatic in how we do it: equities, government bonds, credit and property all have different characteristics. We adapt to reflect the nuances of each asset class because we think this is in the best long-term interests of our clients.

Our four simple principles are easy to write down, but much harder to put into practice. There are many challenges we must overcome if we are to deliver good investment returns and effective stewardship for our clients. For example, the volume, complexity and reliability of data continues to be a challenge. While we are now becoming accustomed to carbon data, there is also a huge variance in the quality and reliability of that data. We are also seeing new data sets emerging, for example in biodiversity.

Plus advancements in large language models and machine learning are creating exciting ways to consume and analyse qualitative information in ways that were never possible before.

Navigating geopolitics and macroeconomic trends can also pose challenges. With the combination of Russia’s invasion of Ukraine, conflict in the Middle East, and a cost of living crisis, policymakers naturally worry about the short-term voter impact of higher energy prices. This creates headwinds and complexities for companies and investors who are focused on managing and accelerating the energy transition.

This section of our report covers a selection of the stewardship activities we have undertaken during 2023.

We **engage** proactively and intentionally to help drive best practice across areas such as climate, biodiversity, social inclusion and governance. Our **research** helps us understand the social and environmental impacts of new issues and trends, such as artificial intelligence, privacy and personal data and sustainable aviation fuel, among others.

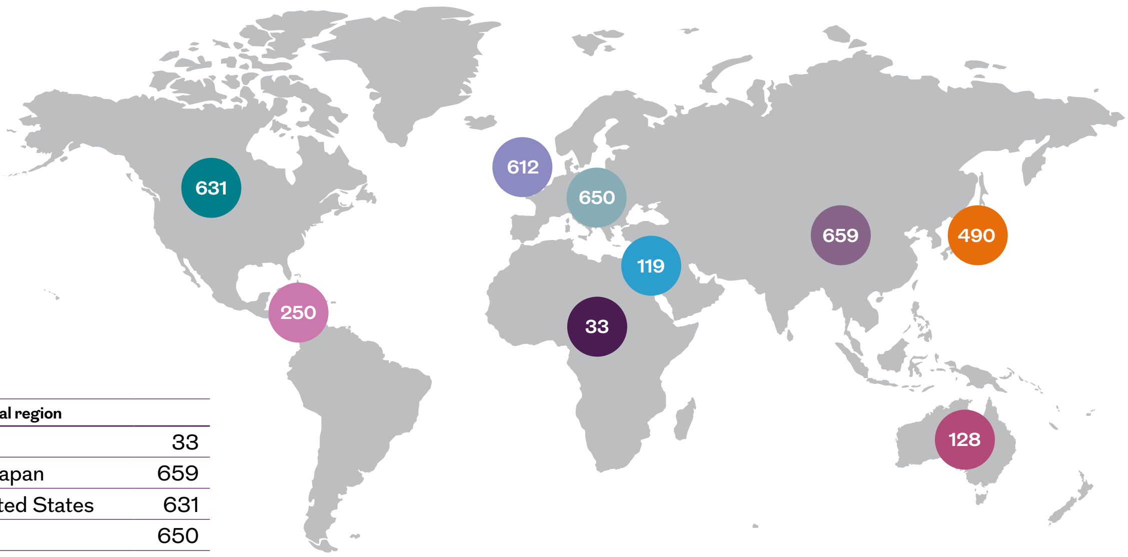
We actively **vote** our shares in companies to encourage strong governance practices to protect shareholder value. Finally, we work with our peers, regulators and governments, because **advocacy** and collaboration is, in our view, a powerful tool to create systemic and long-lasting change.

Highlights from this year include our extensive engagement work on net zero, which you can read about on page 22. We have continued our long-standing work looking at the water utilities sector (pages 74 and 75). We have also significantly advanced our research and understanding of biodiversity, engaging in the first instance with property developers in England about new biodiversity net gain regulations.

In the next section we describe how each of our strategies integrate ESG into our investment decisions. We believe good stewardship is not only expected by our clients, it will help lead to better returns and better social and environmental outcomes. We are committed to being transparent about the actions we are taking to be good stewards and responsible investors. This report is therefore perhaps the single most important publication that we produce each year and we aim to make it as useful and informative as possible.

Voting statistics

Geographical vote breakdown

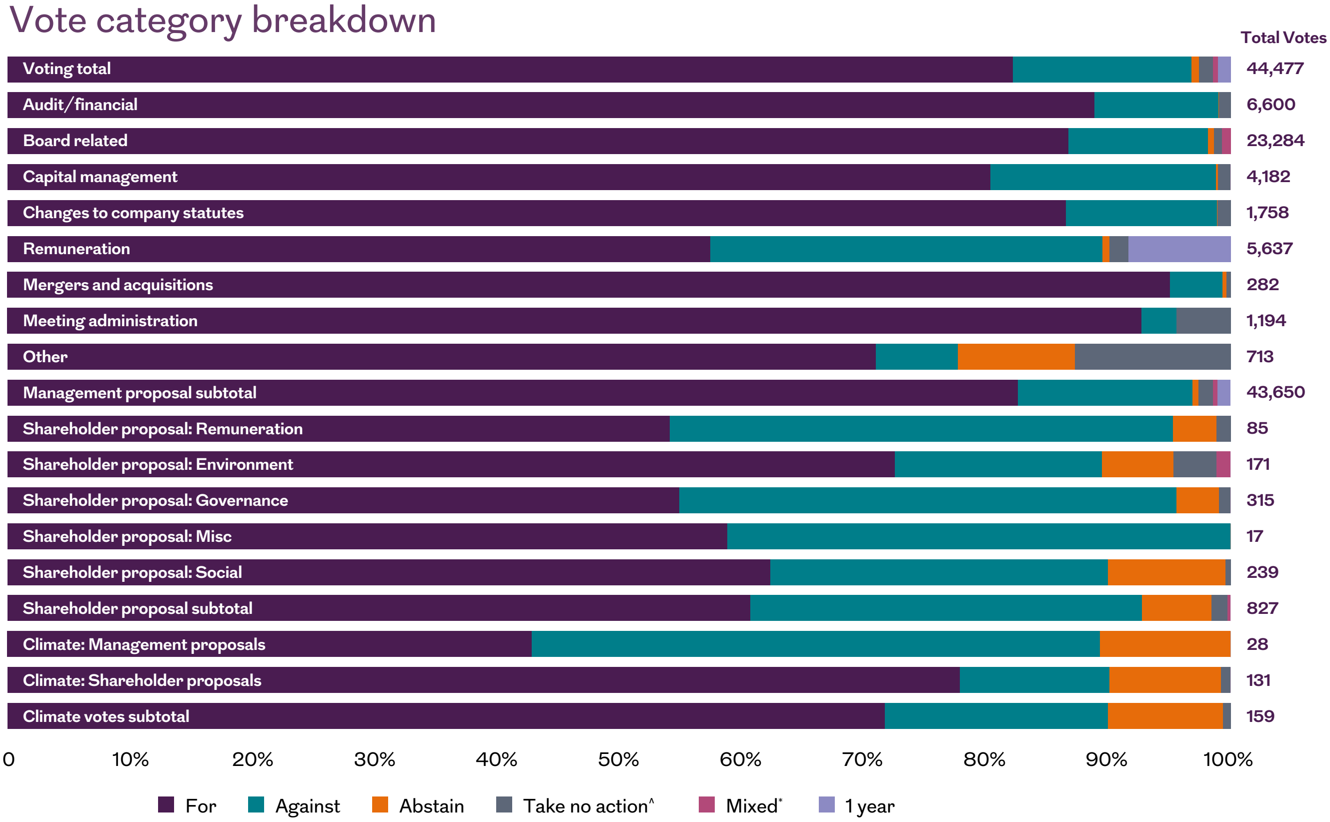


Meetings by geographical region	
Africa	33
Asia excluding Japan	659
Canada and United States	631
Europe	650
United Kingdom	612
Japan	490
Latin America and Caribbean	250
Middle East and North Africa	119
Oceania	128
Total	**3,572**

3,572
total number of meetings voted

44,477
total number of resolutions voted

Vote category breakdown



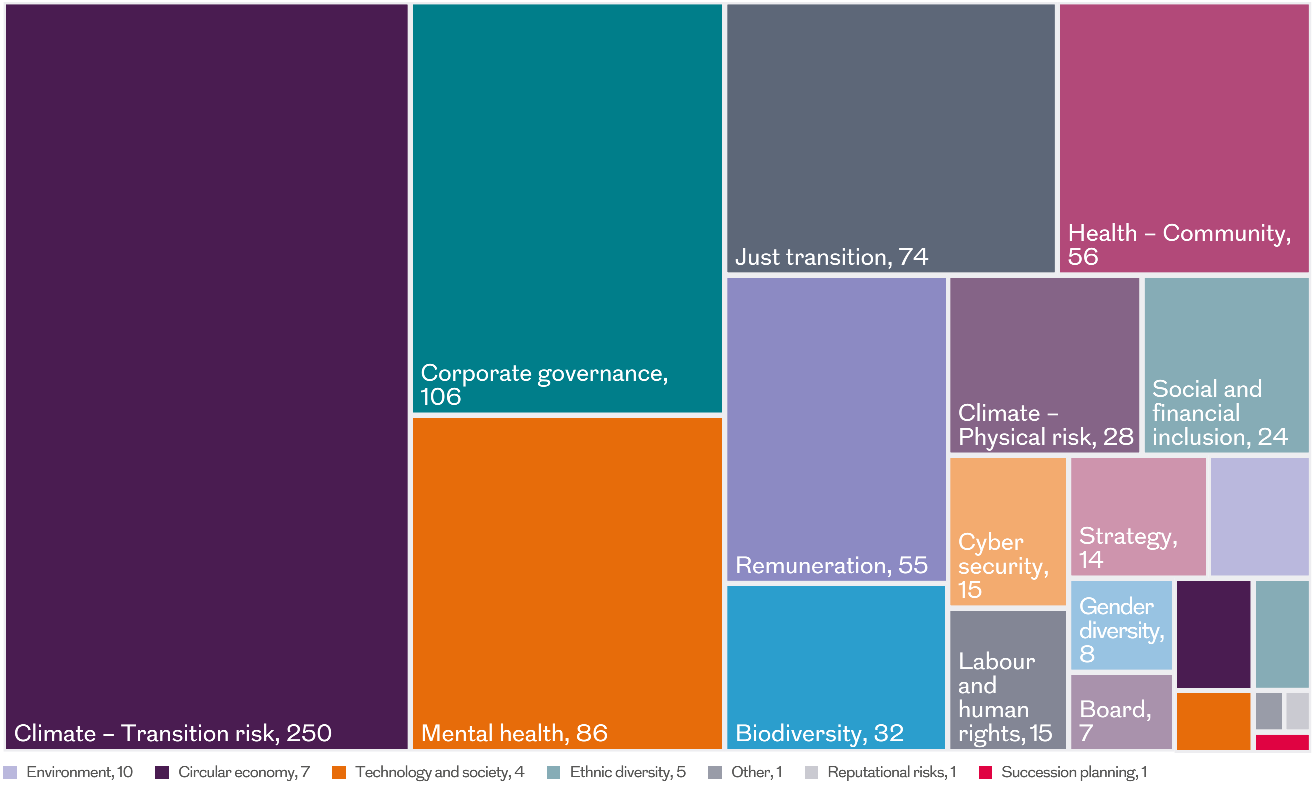
* Mixed votes may include meetings voted by proxy card instead of via the voting platform, client directed voting in segregated accounts or due to the late settlement of trading.

^ We endeavour to vote all meetings but may elect not to vote where shareblocking is in place or in the event of international sanctions. For more details on our approach to voting on climate issues, remuneration matters and shareholder resolutions, see page 93 of this report and our detailed Voting Guidelines.

Source: Royal London Asset Management, 12 months ending 31 December 2023, data accurate as of 4 January 2024.

Engagement statistics

Engagements* on different topics



443
companies engaged

799
engagement activities*

524
proactive engagements* relating to our six engagement themes

169
voting engagement letters sent

21
unique topics we engaged on

275
reactive engagements* in response to corporate ESG events

* This counts the number of times a topic has been raised during each engagement. An engagement can be in the form of a private letter, collaborative sign-on letter, email, phone call or in-depth meeting where ESG issues are discussed in detail. Multiple topics may be raised as part of one engagement.

Our 2023 responsible investment publications

In 2023 we produced 29 publications on various topics across the responsible investment landscape. You can find all of these publications and many more on the Royal London Asset Management website.

January

Why you can't forecast inflation without considering climate change (article)

February

Cyber security engagement phase 3 (blog and report)

March

Climate transition plans (blog)

Proxy season and the cost of living crisis: A sneak peek into things to come (blog)

April

Net zero social housing: a just transition through a perfect storm (report)

Global Sustainable Equity Fund Outcomes Report (report)

Stewardship and Responsible Investment Report 2023 (report)

May

Royal London Asset Management supports SSE's just transition report (press release)

Cost of living and climate crisis interlinked (blog)

ESG integration in UK water companies (blog)

June

Net Zero Stewardship Programme (report)

Responsible investing – social housing engagement (blog)

Task Force on Climate-related Financial Disclosures (TCFD) Report 2022 (report)

RLUTM Climate (TCFD) Report 2022 (report)

RLUM Climate (TCFD) Report 2022 (report)

TCFD Product Reports (report)

August

Water utilities: Striking a balance between necessity and sustainability (blog)

Understanding Best Practice in UK Water (report)

Our approach to reporting outcomes (report)

Compass – Engaging in Stewardship (report)

Taking a closer look at gender pay gap reporting (blog)

October

Responsibility Matters – Stewardship and responsible investment in action (podcast)

November

Responsibility Matters – Sustainable aviation fuel (podcast)

Collaboration is vital for climate strategy (blog)

December

New SEC cyber expectations (blog)

Is sustainable aviation fuel an oxymoron? (article)

Sustainable Aviation Fuel (research paper)

Property Net Zero Carbon Pathway Progress Report 2022 (report)

Responsible Property Investment Report 2022 (report)

2023

Engagement

We regularly engage with the companies we invest in on ESG issues, which can have a positive effect on corporate behaviour over time. We expect to improve corporate practices and foster long-term, mutually beneficial relationships. As an active asset manager with a long-term view, we are fulfilling our clients' expectations to engage on their behalf on the issues that matter to them.

Highlights

- Continued engagement on net zero and the just transition
- Collaborated with clients to engage with UK water utilities
- Consulted clients and stakeholders on our engagement themes.

Collaborating on ESG action

This past year, we continued our proactive engagement programmes focused on net zero, just transition and cyber security. We have also collaborated with other investors on engagements with the water sector and started new engagements on important health themes, including employee mental health, access to medicines in low-to-middle-income countries, and community health challenges like damp and mould in social housing. Our collaborative initiative on Big Tech companies has also centred on their human rights practices.

Engaging for change

Shifting more of our stewardship effort from 'engagement for information' to 'engagement for change', we have dedicated more resources to driving positive outcomes in the past year. Our Net Zero Stewardship Programme targeted change at our largest carbon emitters across equity and fixed income, guided by our proprietary assessment of 12 climate indicators. Similarly, our cyber security and water programmes set clear investor expectations, providing practical tools for improving corporate ESG practices and giving us a platform to develop deeper and more positive relationships with companies.

2024-2026	
	Climate change Transition to global net zero emissions Adaptation to climate change
	Social and financial inclusion Just transition Financial inclusion Human rights and modern slavery
	Health Mental health Health equity and community health
	Innovation, technology and society Cyber security Technology and society
	Governance and corporate culture Good governance, purpose and culture Diversity
	Nature and biodiversity Biodiversity restoration and conservation Nature

"2023 saw our third engagement theme review. The combination of responsible investment team knowledge, client consultation and investment team insights ensures we remain focused on the most material issues."

Carlota Garcia-Manas,
Head of Climate Transition and Engagement

Read more about our engagement approach, including the tools and practices we use, how we escalate engagements, and how we record and track engagements here.

Reviewing our themes

Collaborating across investment teams and clients, we undertake a review of our engagement themes and topics every two years. This helps us identify the most relevant issues for our investments, ensuring we deploy our resources effectively.

Informed by research: We look at trends and emerging issues identified by organisations like the World Economic Forum or the Principles for Responsible Investment and consult with our clients and investment teams.

Maintaining our current focus areas: Although our consultation confirmed we are focused on the right things, in 2023 we refined some of the underlying topics, adding human rights and nature to reflect the priorities of our clients and investment teams:

- **Climate change:** There was unanimous agreement that this continues to be a priority, with particular interest in how companies are allocating capital and innovating.
- **Social and financial inclusion:** Almost all of our clients were interested in expanding our engagement to focus on human rights and modern slavery, and to continue our efforts on financial inclusion.
- **Health:** Investment teams showed strong interest in antimicrobial resistance and access to medicines. Both clients and our investors support a continued focus on workforce mental health.
- **Innovation, technology and society:** Broadly interesting to clients and investment teams, with emerging topics being the focus, such as the impact of artificial intelligence (AI).
- **Governance and corporate culture:** This theme is widely supported with emphasis on diversity and remuneration. Both clients and investment teams are interested in further exploring corporate purpose and culture.
- **Nature and biodiversity:** Priority for over half of our clients, with interests ranging from circular economy to supply chain transparency. We added nature to our themes to maintain a broad approach to cover these diverse and interlinked topics.

Research

'Off-the-shelf' ESG research from third-party providers rarely provides the nuance or context we need to add value to our investment process. Our in-house research team directs their expertise through targeted and bespoke thematic research, company assessments, and reporting and analysis tools to support both investment decision making and stewardship activities.

Reflecting on research trends

Evolving trends and increasing demands from diverse stakeholders significantly influenced the scope of our ESG research this year. We have seen a heightened focus on biodiversity, influenced by policy initiatives like the Global Biodiversity Framework, and growing client interest in managing nature and biodiversity dependencies. Regulatory and voluntary disclosure requirements have intensified, with expectations set by the UK's Sustainability Disclosure Requirement (SDR) and the EU's Corporate Sustainability Reporting Directive (CSRD), alongside initiatives like the Taskforce on Nature-related Financial Disclosures (TNFD).

Adapting to a dynamic ESG landscape

Some trends from previous years continue to gain momentum, particularly demands for more reporting and disclosure. We have seen the politicisation of ESG in the US increase the level of scrutiny on investors, alongside growing interest in the future role of AI and concerns over Big Tech's use of personal data. Policymakers and regulators continue to focus on eliminating greenwashing and examining marketing claims about the impact and outcomes of sustainable investing. Within this evolving landscape, we adjust our research, so it remains relevant and continues to add value to our clients and investment teams.

Responsive and adaptable ESG research

We adopt a dynamic approach to ESG research. We regularly conduct reviews with investment teams tailored to each strategy and asset class, focusing on identifying ESG risks and opportunities, reviewing engagement outcomes, and discussing key proxy votes or emerging trends. We support our sustainable investment funds by undertaking corporate sustainability assessments, and we work with our Fixed Income teams to enhance climate data. In addition, our experts are on hand to provide advice and guidance on the latest ESG regulations, topics, tools and data. We stay on top of emerging issues with bespoke research on new or developing sustainability topics such as biodiversity, inequality and sustainable outcomes measurement. This helps ensure we are forward-thinking, incubating ideas and anticipating trends to help equip our clients and investment teams to respond.

Tools to streamline ESG analysis

We continuously develop tools to help systematise and scale up ESG data and reporting, making information accessible to investment and distribution teams.

ESG dashboard: This is our central repository for ESG data, featuring a proprietary climate scoring model (ESG+climate). It also has enhanced resources like carbon emissions data, Sustainability Accounting Standards Board (SASB), regulatory information, and principal adverse impacts (PAIs). It also includes bespoke scoring from our credit teams.

Advanced fund ESG analytics: We offer comprehensive fund-level ESG data analysis, climate metrics comparison, engagement overviews and support for regulatory reporting on PAIs.

These tools have been built to meet ever-growing demand for ESG information and reporting, enhancing our ability to respond to client needs and regulatory requirements, as well as to visualise data for deeper insights.

Highlights

- Published first fund-level sustainable outcomes reports
- 42 ESG integration meetings reviewing risks and opportunities
- Seven ESG reviews ahead of approving new trading counterparties.

"The true essence of research lies in its ability to challenge assumptions, inviting us to rethink, redefine and reimagine."

Eli Haroush
Head of ESG Research

Our research in action

New outcomes report
This year, we published our first **fund-level outcomes report,** marking a significant milestone in our journey.

Portfolio deep dives
- Provided insightful analysis of biodiversity to our global equity and sustainable teams
- Provide corporate governance expertise to our global and all-market UK equity strategies
- Supported our High Yield team to design and embed a new ESG+C scoring framework.

Voting

Exercising our voting rights is a core part of what we do. Voting on thousands of resolutions worldwide is an extension of our work to promote good governance and proactive, thoughtful stewardship. Our voting is pragmatic, reflecting best practices, evolving insights and the long-term interests of our clients.

Highlights

- Voted in 3,572 meetings in 57 global markets
- Sent 169 letters to companies explaining how we voted
- Proactively recalled all stock on loan so we could vote our positions.

Strategic voting practices

Throughout the year, we voted at 3,572 meetings in 57 markets, with our Responsible Investment team carefully considering each vote. Through analysis, internal discussions and the outcomes of any ongoing engagement, we align each vote with our policies and adhere to local best practice. Our voting decisions send a clear and united message to our investee companies about our governance expectations and reinforce our efforts to uplift standards through engagement.

A general guide to how we vote

We seek to support the boards of our investee companies that act in the long-term interests of shareholders and stakeholders.

- *For:* We support resolutions that align with our guidelines, local market best practice and shareholders' long-term interests.
- *Against:* We oppose resolutions that are not aligned with our guidelines, do not follow best practice, or are not in the best long-term interests of our clients.
- *Abstain:* We use this option when resolutions fall short of best practice but are not material, to signal initial concerns, or when issues are material but not fundamental and we have yet to raise them with the company.

Although a *for* or *against* vote sends a more direct message to a board, we appreciate that not all issues are clear cut. We use an *abstain* to signal our initial concerns and invite a dialogue.

Important: An *abstain* is not a vote under English Law and is not counted in the official calculation of the proportion of votes *for* or *against* a resolution used throughout this report.

Commitment to transparency

We review our voting approach annually, incorporating emerging best practices and client feedback. We publicly disclose all voting outcomes on our website, including the rationale for any votes *against* management. Extending this transparency to the companies in our actively managed funds, we invite dialogue and understanding by sending companies letters to explain how we have voted, especially when we have *abstained* or opposed the management recommendation.

Consistency and client collaboration

Our focus remains on maintaining a consistent voting approach while being receptive to our clients' diverse perspectives. We strive to balance the need for a unified voice with the flexibility to accommodate individual client preferences. In addition to voting on our equity holdings, our proactive management of stock lending and bondholder votes helps us maximise our influence and safeguard our clients' interests.

Significant votes

We consider all votes to be significant for the purposes of the EU Shareholder Rights Directive II (SRD II). As such we publically disclose all of our votes on our voting website.

We will also include rationale whenever we vote *against* the management recommendation, including where we support or *abstain* on shareholder proposals. We believe this transparency is important.

The voting examples highlighted throughout this report are not exhaustive, but are representative of our views and approach to a number of different topics.

"Each vote is assessed individually using policies and insights from our Responsible Investment and Investment teams, ensuring the final decision is pragmatic and in the best long-term interests of our clients."

Sophie Johnson
Head of Governance and Voting

3,572
meetings voted

44,477
resolutions voted

A closer look at how we vote

You can read more about how we exercise our voting rights here.

Advocacy

We collaborate with regulators, governments, standard setters and non-governmental organisations (NGOs) to advance responsible investment and good governance. Through consultations, surveys and policy discussions, we contribute our expertise and advice to support meaningful, system-level regulatory or industry change.

Highlights

- Advising on new sustainable fund labelling regime
- Supporting calls for greater voting transparency
- Active participant in the Climate Financial Risk Forum and Transition Plan Taskforce.

Actively advocating for change in the UK and abroad

As a UK-based business, much of our public policy efforts have been focused on our home market. This is where many of our clients are based, our main regulator is located, and it is where we can often have the most influence. However, our advocacy extends to other markets when relevant to our clients or investments. As we grow our international business, we expect our advocacy work in other markets will also grow.

Channelling our expertise and advice

We contribute to regulatory and best practice consultations, surveys and policy discussions, and when a direct response is not feasible, we work through industry associations. We commit our time and expertise as advisers to trade associations and bodies advocating for responsible investing and stewardship practices:

- **UK's Investment Association (IA):** We participate in the Sustainability and Responsible Investment Committee and a number of working groups, including on climate, stewardship and regulation.
- **UK Local Government Pension Scheme Responsible Investment Advisory Group (RIAG):** We have a representative on this advisory group to support the implementation of responsible investment at UK local government pension schemes and advise UK pension regulators.
- **The Principles for Responsible Investment (PRI):** We signed the public investor statement and signalled our support as endorsers of PRI's human rights engagement initiative, Advance. We have also participated in the co-design workshops for PRI's Progression Pathways.
- **Disclosures and Labelling Advisory Group (DLAG) of the UK's Financial Conduct Authority (FCA):** We provided advice to the UK regulator on proposed new standards and labels for sustainable investment funds.
- **Vote Reporting Group (VRG):** Convened by the FCA, we provided practical expertise on proxy vote reporting practices to improve transparency and visibility for clients.

Climate expertise

Climate change is a key challenge that will not be resolved solely through market forces, requiring global concerted policy action. We believe government and public sector advocacy forms a core component of any comprehensive net zero engagement strategy. Following a two-pronged approach, we target climate action through individual and collaborative corporate engagement (see page 22) and systemic public policy intervention.

- **Climate Financial Risk Forum (CFRF):** We are a member of the forum, and in 2023 contributed to the Transition to Net Zero Working Group.
- **Transition Plan Taskforce (TPT)**: We joined the HM Treasury's TPT Asset Management Working Group and the Just Transition Working Group. You can read more about this initiative on our website.
- **UN Environment Programme – International Labour Organization (ILO)**: We were the only financial institution included in the advisory group and actively contributed to the development of the first road map for the banking and insurance sector implementing just transition, which was unveiled at COP28.
- **Institutional Investors Group for Climate Change (IIGCC):** We lead the sector-focused work for CA100+ on utilities in Europe and have contributed to other sector working groups, including oil and gas, auto manufacturers and banks.

This year, we joined other investors in signing two advocacy letters to influence energy policy:

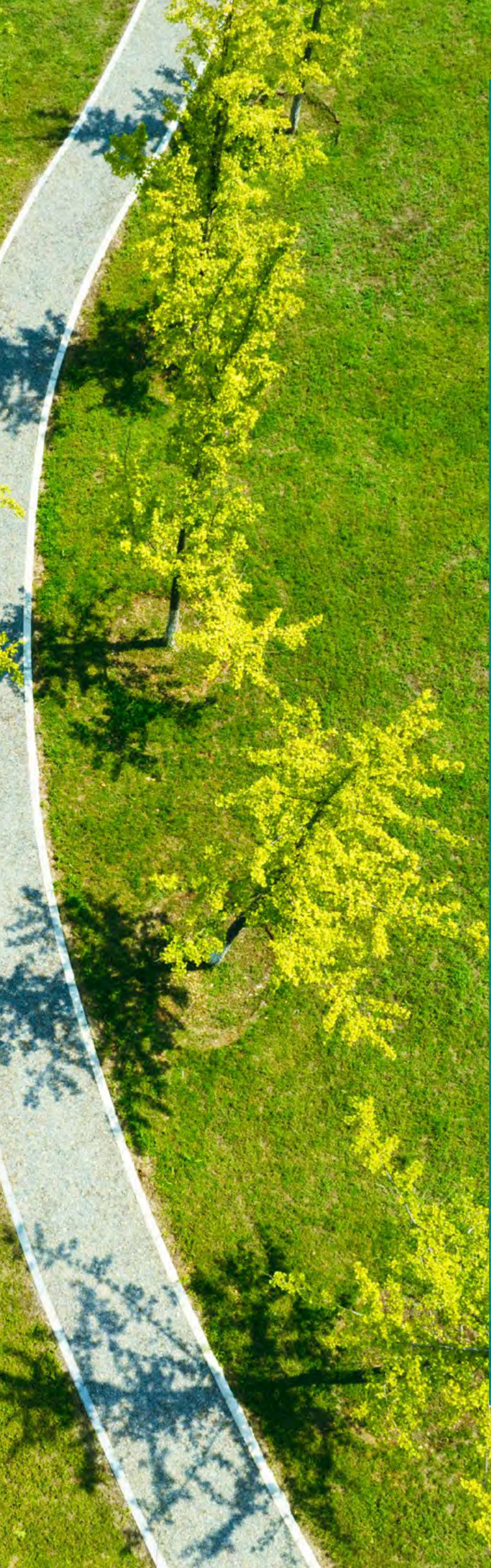
- Letter to Italy's Ministry of Economy and Finance signalling investor support for the continuation of Enel's – Italy's partly state-owned energy utility – climate strategy under the new management team to be appointed by the Minister.
- Letter to the UK's Secretary of State for Energy Security and Net Zero, expressing support for the proposed reforms to the UK Energy Bill. It aims to expand the mandate of Ofgem, the UK's energy market regulator, to explicitly include the goal of net zero.

"Developing a vote reporting framework is a key step towards ensuring that voting disclosures are visible to all stakeholders, hence aiding transparency and decision making."

Sika Neckles
Corporate Governance Analyst

A closer look at our **stewardship activities**

We have used issues important to our clients and the wider society to showcase some of our engagement, research and voting activity. We have also highlighted initiatives we have participated in and led throughout 2023.



Engagement themes

2022-24

We focus our time and attention on issues we feel are most material to our investments, and where we think engagement can have the biggest impact on ESG outcomes. We do this by focusing on six key engagement themes. These are chosen following a review of trends and events, alongside extensive consultation with fund managers, responsible investment analysts, clients and other stakeholders.

The extended pages throughout the report detail our work and results for each engagement theme we focused on in 2023.

We review our engagement themes every two years with the last review completed in 2023. You can read more on page 16.

Our six engagement themes for 2022–2024:

Climate change

Net zero: Creating a Paris-aligned future

Climate physical risk: Building resilience to climate change

Social and financial inclusion

Just transition: Putting the social transition at the heart of the climate transition

Health

Corporate impact on health: Supporting healthy employees, customers and communities

Innovation, technology and society

Cyber security: Protecting assets and infrastructure

Technology and society: Building responsible technology

Governance and corporate culture

Good governance and culture: Creating resilient businesses
Diversity: Supporting inclusive decision making

Biodiversity

Corporate impact on biodiversity: Protecting our natural capital

Climate change

The climate is changing, and companies must prepare for the transition to a more sustainable economy. The physical impacts of extreme weather – and the policies and infrastructure changes we'll need to reduce emissions – are disrupting financial markets and 'business as usual'. We focus our stewardship efforts on encouraging business transformation that supports the goals of the Paris Agreement and a net zero emissions future, while building resilience to the physical risks of climate change.

Highlights

- **Total climate engagement:** Engagement with 223 companies (278 engagements*) representing 65% of our financed emissions
- **Net Zero Stewardship Programme:** Evaluating and monitoring transition plans and reporting our progress
- **EDF:** Acute physical risks require climate adaptation
- **Shell:** New CEO raises questions about long-term climate strategy.

278

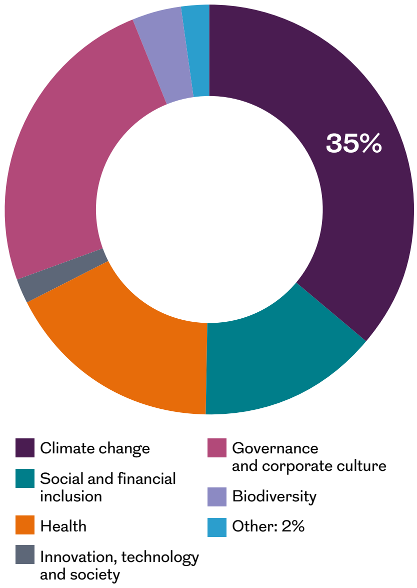
engagements* on climate change

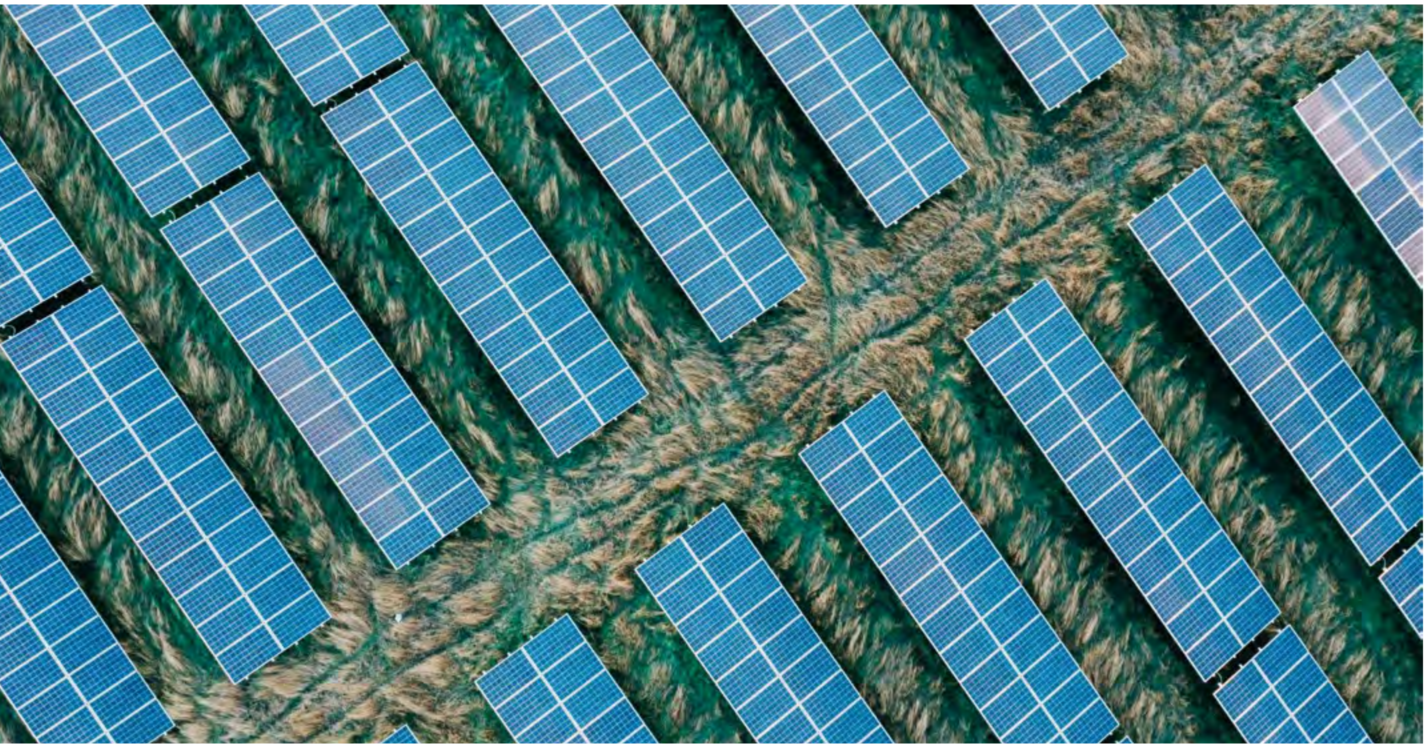
192

companies contacted

* number of engagements is often higher than number of companies engaged as multiple ESG issues could be discussed with one company in the same meeting.

Climate change engagements





Acceleration in climate awareness

In 2023 we witnessed the hottest year on record[1]. There were numerous extreme weather events and high temperatures, showing that the costs of climate change are occurring now, rather than at a theoretical point in the future.

While there have been setbacks, there are still reasons to be optimistic.

Positive signs in energy and transport

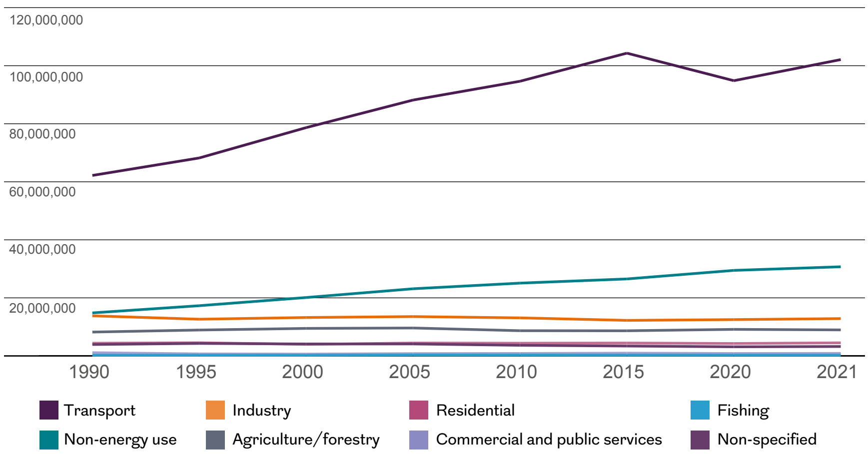
Renewable energy generation continues to increase, even if fossil fuel generation is not yet falling. Globally, over 500 gigawatts of capacity were installed in 2023. We are also seeing positive trends in transport, with costs of electrified vehicles decreasing and their adoption accelerating. In air travel, the first 100% sustainable aviation fuel transatlantic flight caught the headlines in November, and we are also seeing advances in decarbonising shipping.

Challenges in oil and gas

Overall progress in this sector remains slow, with some companies in Europe quietly scaling back prior commitments while retaining a 'climate friendly' transition narrative. US oil majors are growing through mergers and acquisitions, adding low-cost oil production and carbon capture technology. The variation of future energy scenarios, coupled with differing start points and corporate strategies, means that each company faces its own challenges in the energy transition. We have reacted with more intense and focused engagement, and stronger voting positions.

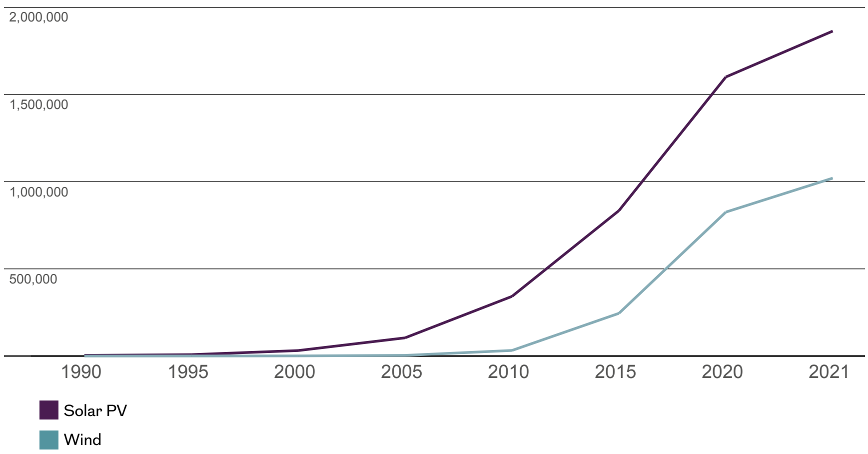
1. https://www.ecmwf.int/en/about/media-centre/news/2024/2023-was-hottest-year-record-copernicus-data-show

Oil products final consumption by sector – World 1990-2021 (TJ)



Source: IEA World Energy Balances, www.iea.org

Solar & wind PV electricity generation – World 1990-2021 (GWh)



Source: IEA Renewables Information, www.iea.org

Collaboration: Working with others to accelerate change

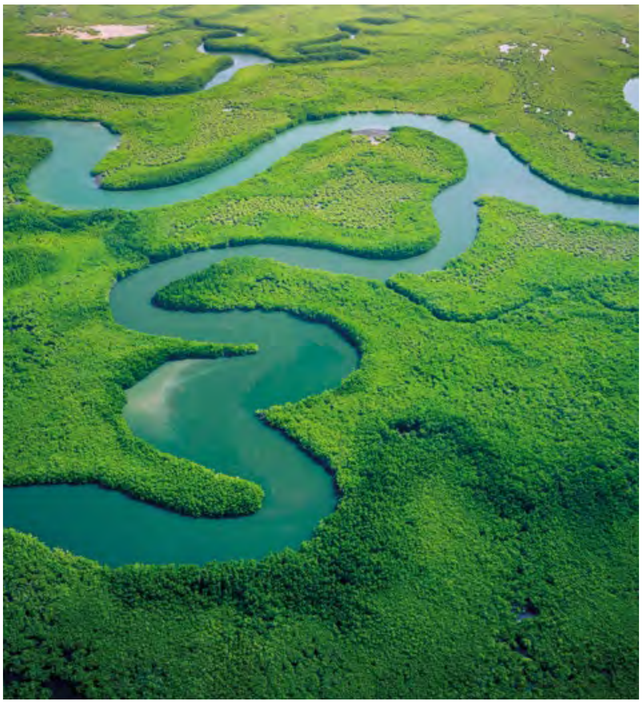
CA100+: We lead engagement for E.ON and EDF to address specific gaps in their transition plans.

NGOs: We maintain open dialogue with NGOs advocating for climate through investor networks, such as InfluenceMap, ShareAction, ACCR and FollowThis.

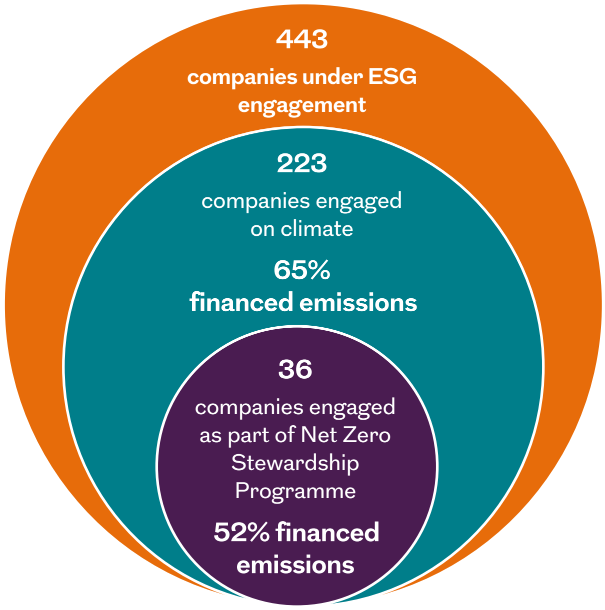
The Net Zero Engagement Initiative (NZEI): This initiative encourages companies to develop a net zero transition plan. 107 letters were sent to companies this year. We co-lead engagement for Drax, Croda and UPM-Kymmene Oyj.

Leading the energy utilities working group: We co-lead the IIGCC energy utilities working group, advocating for 2040 net zero targets. We engage with major utilities, including National Grid, SSE, E.ON, EDF and Centrica, on just transition and decarbonising heating across Europe.

Our Net Zero Stewardship Programme



Climate engagement breakdown



Engaging with our highest emitters

We follow the science and acknowledge that climate change can have an impact on our clients' financial outcomes. In 2021, we joined the Net Zero Asset Managers initiative (NZAM). As part of our ambition to help our clients and the companies we invest in to transition to net zero, we launched our Net Zero Stewardship Programme in 2022.

The purpose of the programme

As active investors and trusted stewards of our clients' capital, one of the most effective ways we can create change to support meaningful climate action is through engagement, voting and advocacy. This is a long-term commitment.

We identify the highest emitters across our AUM, evaluate and monitor companies' climate transition plans, and engage for change. We aim to support companies in transitioning their business models and encourage them to adapt to climate change.

Evaluating net zero progress

We have developed a framework to assess the quality of companies' decarbonisation plans and their progress in meeting their net zero commitments. This includes:

Research: We evaluate companies using our proprietary Responsible Investment (RI) Climate Transition Assessment, focusing on three key expectations: setting Paris-aligned targets, influencing wider net zero adoption, and demonstrating immediate action. Our 12 indicators help us assess whether companies are taking meaningful steps to align to net zero.

Engage: We engage with companies to enhance their climate transition plans. We often do this directly, but we also partner with CA100+ and other investor networks where beneficial.

Vote: Our active in-house voting strategy applies our indicators when suitable, as well as other escalation techniques.

Integrate: Data and insights from climate engagements are shared to support integration into investment processes.

Advocate: We participate in collective advocacy efforts to support policies that facilitate net zero achievement. See page 19 for more detail.

Report: We share our progress with clients and stakeholders approximately twice a year in a comprehensive net zero stewardship update.

36

companies engaged as part of our Net Zero Stewardship Programme in 2023

52%

of our financed emissions engaged as part of our Net Zero Stewardship Programme

3

company net zero indicators improved for every one indicator that deteriorated

Our Net Zero Stewardship Programme

2023 progress and outcomes

In 2023 we engaged 223 companies on all climate-related issues, which covers 65% of Royal London Asset Management's financed emissions.

During the year, we engaged intensively with 36 companies as part of our systematic Net Zero Stewardship Programme, which represented over 52% of our financed emissions. As part of this effort, we review companies with our proprietary RI Climate Transition Assessment using 12 indicators to understand companies' net zero plans and their delivery.

We found that 73% of the companies we assessed between 2022 and 2023 were considered to be 'aligning towards a net zero pathway'.

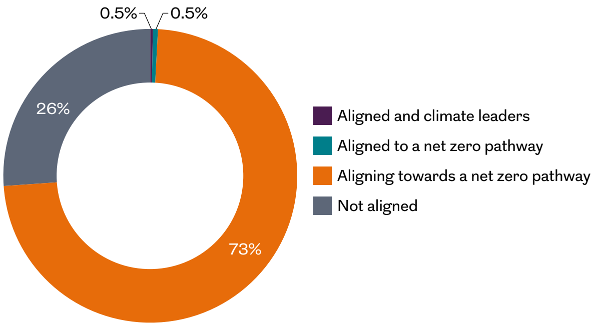
We will continue to focus on ensuring companies have robust climate transition plans and are prepared to take advantage of opportunities.

Reporting our progress

We publish our research process, methodology, and the outcomes of our engagements, climate voting and advocacy efforts on our website.

- Net Zero Stewardship Programme 2022
- Net Zero Stewardship Programme Update H1 2023
- Net Zero Stewardship Programme 2023

Companies assessed against Net Zero Investment Framework alignment categories



Net Zero Stewardship Programme progress so far

Over the last two years, we have assessed and observed changes in our RI Climate Transition Assessments of 22 high-emitting companies[1]. Progress has not been linear, and while the trend has not always been upward, the overall trajectory has been positive. On average across these companies, for every indicator that has deteriorated, three indicators have improved.

2022 → 2023

Neutral

The area where we observe the best performance is still within companies' targets covering all scopes of emissions. However, these targets are typically not ambitious enough (not aligned to the Paris Agreement) as we have reported in previous years.

Positive

Three companies we engaged with improved their plans to 'aligning towards a net zero pathway', while seven companies improved on scaling climate solutions and eight companies improved on integrating climate into executive remuneration.

Negative

Two companies we engaged with worsened their climate plans, moving from 'aligning towards a net zero pathway' to 'not aligned' (i.e. the worst assessment). The indicators where we observed deteriorating trends during the year were on climate lobbying, and short-term targets and their delivery.

1. We have 22 high-emitting companies with 2022 baseline and 2023 RI Climate Transition Assessments.

Engagement: EDF – planning for transition and adaptation

The rising challenge of climate change

The summers of 2022 and 2023 marked a pivotal moment for EDF, as escalating climate risks, particularly heatwaves and storms, tested the company's adaptation strategy. These acute physical risks, including the costly impact of heatwaves and storms, required a robust response to safeguard reactor capacity and maintain operational efficiency. More chronic challenges include the effects of high temperatures and rising sea levels.

Improved adaptation, disclosures and remuneration

As significant bondholders and co-leads of the CA100+ engagement with EDF, we introduced the topic of climate adaptation, encouraging EDF to publish adaptation plans alongside the various aspects of its climate strategy. The company improved adaptation disclosures, particularly for new assets, and made us aware of its high score on ADEME's (the French Energy Agency) adaptation tool. EDF's remuneration practices reflect its adaptation strategy, focusing on network business reliability. The company is adopting a more systemic approach to adaptation, collaborating with the military on extreme scenarios and engaging with local communities to ensure a 'just adaptation', especially regarding shared water resources.

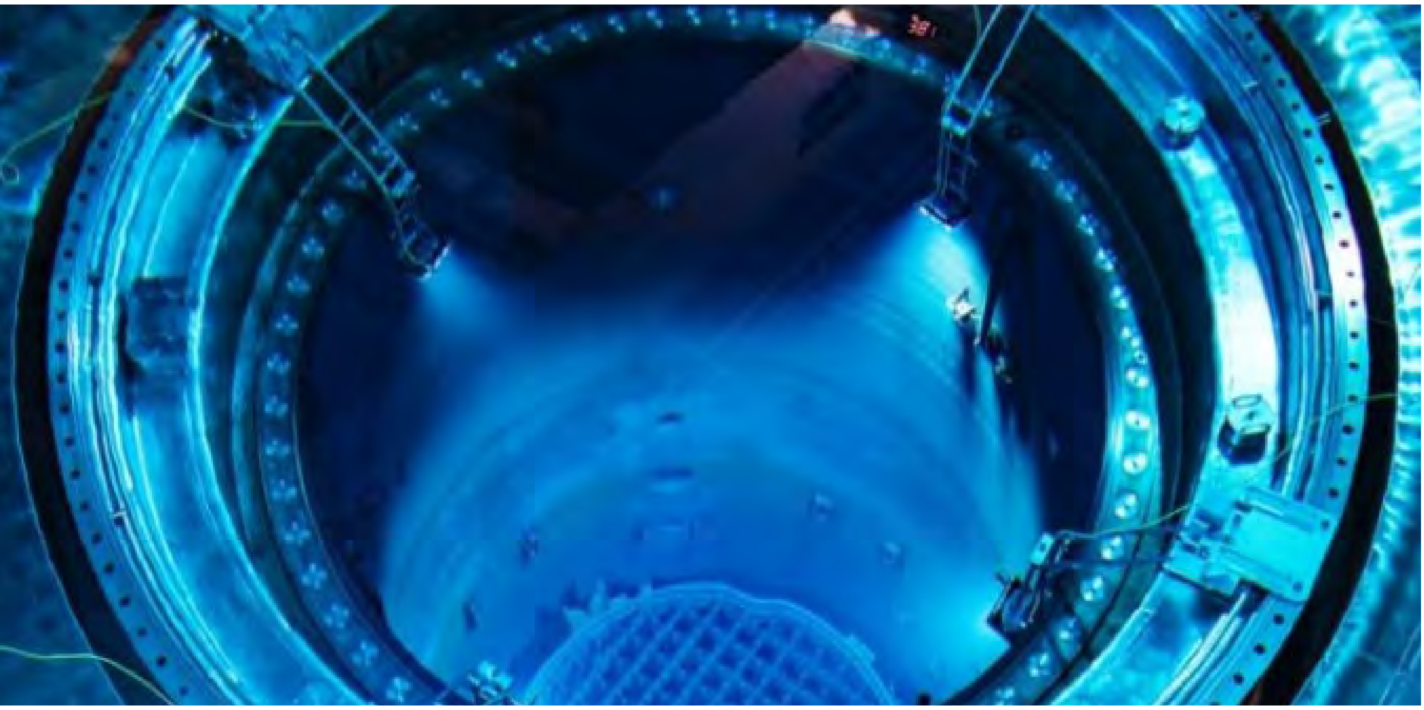
Beyond adaptation, we also engaged with the company to address specific gaps: 1) improving EDF's Scope 3 emissions targets and reduction levers, 2) improving Scope 1 emissions including expanding its renewable and nuclear plans, and 3) improving offsetting, residual emissions, just transition, and CAPEX disclosures.

EDF's new emission reduction targets

EDF set new targets to reduce its Scope 1 emissions from electricity generation by 60%, 70% and 80% by 2025, 2030 and 2035 respectively, from a 2017 baseline. The company has already halved its Scope 1 emissions between 2017 and 2022. EDF also clarified its target for net zero by 2050 target, confirming that it includes Scope 3 emissions (almost 80% of its current emissions) and entails reducing emissions by at least 90%, with the remaining 10% abated through quality carbon removal projects after 2030.

EDF's continued adaptation journey

Despite re-nationalisation, as bondholders we will continue to monitor that the adaptation and decarbonisation plans of the company are credible and are adequately mitigating risk.



Engagement: Shell – new CEO, new strategy

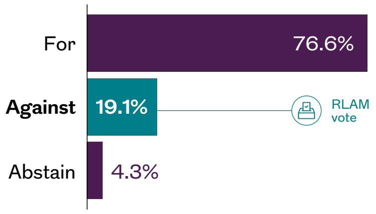
Shell is an oil and gas major whose progress we have monitored closely for several years as the firm remains a substantial holding and contributor to our financed emissions. When the company appointed a new CEO in 2023, we sought clarity on its climate transition plan. Engagement is ongoing with a focus on setting an ambitious and credible decarbonisation strategy.

Getting ready for the 2023 AGM

Following internal discussions on the progress of Shell's climate transition plans, we reiterated our requests for improvements with the company's Chairman ahead of the AGM. Although the company intends to meet its 2030 targets in a non-linear pathway, we highlighted our need for transparency. In particular, we requested more disclosure about the choice of carbon credits and the absolute emissions reductions. These commitments are implied – but not explicit – in its Scope 3 emissions targets.

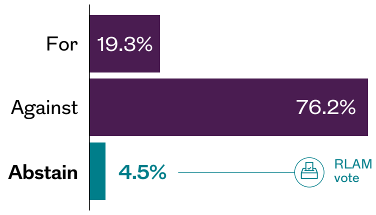
Vote: Powering Progress

In 2022 we *abstained* on the management proposal to approve Shell's 'Powering Progress' report. We believed it was not sufficiently ambitious to be considered in line with the Paris Agreement. In 2023, we escalated our concerns and voted *against* the management proposal. We observed slow progress and retained concerns around Scope 3 disclosure, offsets, and investments in new oil and gas production.



Vote: Shareholder proposal

In 2023 we *abstained* on a shareholder-proposed resolution on climate change. This was a change from 2022 when we aligned our vote with management and voted *against* the proposal.



Strategic shifts

Shell has recently made several strategic changes, following the appointment of the new CEO.

Capital Markets Day: At this event in June 2023, we noted Shell's 'Powering Progress' plans would decrease investments in (renewable) power. Shell stated it had already achieved a 1-2% reduction in oil output through divestment of its shale business, an approach we believe does not support real-world emission reductions. Additionally, its Scope 3 targets were notably missing from distributed materials.

Engagement for change

Direct dialogue: Following the Capital Markets Day, we wrote to Shell's Chairman to reiterate requests for clear disclosures on Scope 3 emissions and offsetting policies and to explain how exploration activities align with its climate commitments. We met twice following this communication to discuss our expectations for the planned revision of its energy transition strategy, which was first published in March 2023.

Deep dive into scenario modelling: We engaged with Shell's Head of Scenario Modelling to gain insights into underlying assumptions and conditions of the climate scenarios guiding its strategy.

Lobbying alignment: We joined other investors and the not-for-profit Australasian Centre for Corporate Responsibility (ACCR) to request improvements on the company's lobbying disclosures, particularly including membership and direct lobbying in emerging markets.

Evaluating progress

Reflecting on our extensive engagement with the company and some of the changes announced at the Capital Markets Day, we re-evaluated Shell's net zero alignment. Our evaluation found it had improved in some areas but fallen back in others. We had the following observations:

- Inadequate short-term ambitions
- Planned increase in absolute emissions before 2030
- Poor disclosures on lobbying and trade association memberships
- Improved disclosure on how its transition plans will impact workers, communities, suppliers and customers.

The Responsible Investment team revised Shell's status from 'aligning towards a net zero pathway' to 'not aligned' within our RI Climate Transition Assessment.

Engagement continues

While Shell has yet to fully meet our requests, it is a large and strategic holding for us, so our engagement will continue. We aim to shift companies from 'not aligned' to 'aligned' within our RI Climate Transition Assessment.

Social and financial inclusion

Companies succeed when everyone has an opportunity to participate and be productive members of society. We are helping to shape a just transition, asking companies to promote economic equality and protect the vulnerable as they work towards a sustainable future.

Highlights

- Published a paper on the just transition in **social housing** with Friends Provident Foundation (FPF)
- Worked with our client Border to Coast to engage with large **UK banks** and **CLP Holdings**
- Supported shareholder proposals at **Chevron**, **Amazon** and **ExxonMobil.**

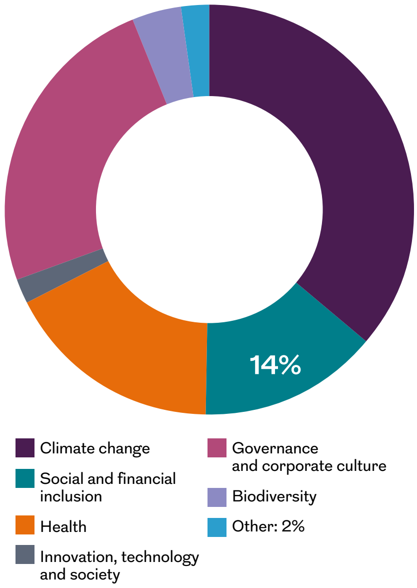
113

engagements on social and financial inclusion

86

companies contacted

Social and financial inclusion engagements



Building inclusivity into climate action

Since 2019, we have partnered with FPF, championing an inclusive approach to climate action, ensuring the 'just transition' concept avoids deepening existing injustices. We have woven this principle – mentioned in the Paris Agreement – into our net zero engagements, climate transition plans and advocacy efforts, contributing to its growing mainstream acceptance among companies and investors.

A just transition across borders

Our focus on just transition has evolved significantly since its early stages. Throughout 2023, the concept has become a more mainstream expectation among investors and policymakers. Internationally, the just transition concept is gaining traction, particularly at UNFCCC's Conference of Parties meetings (COP). Here, governments are focusing on socially inclusive climate policies and directing finance to support specific countries to transition away from coal.

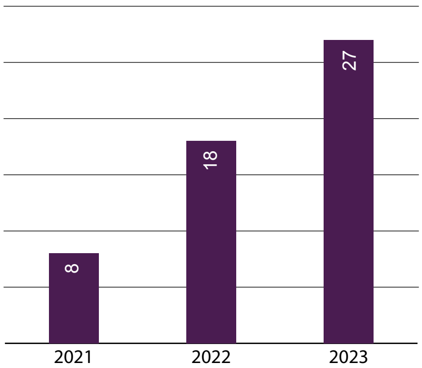
COP28

At COP28 in Dubai, the two most notable diplomatic victories – the establishment of a Loss and Damage Fund and the agreement of the need for 'transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner' – are climate justice achievements. However, only 30% of national climate plans have a social component to them. To move from diplomacy to national policies, COP28 created a work programme for governments to integrate just transition into their national plans, with a focus on labour rights. Royal London Asset Management worked with the International Labour Organization and the United Nations Environment Programme throughout the year on guidance for a just transition for the banking and insurance sector.

Most companies we engage with get it

Our proactive engagements reveal that – overall – companies agree that integrating a just transition into their strategies enhances their ability to meet their commitments. A just transition requires proactive human capital management and helps foster social acceptance to make the transition to net zero smoother. We have actively engaged utilities in Europe, the US and Asia, as well as banks, housing associations, miners, and oil and gas companies. We have asked them to incorporate social factors into their climate plans over 2022 and 2023, and we are starting to see some notable progress.

Cumulative number of companies which mention just transition as part of net zero plans*



* This only includes companies which we have researched as part of our engagement efforts.

What is a 'just transition'?

A 'just transition' asks companies and governments to consider the social implications of moving to a low-carbon economy. It's an inclusive approach which helps avoid exacerbating existing injustices or creating new ones.

Collaboration: Social housing, energy and banks

In 2023, we continued our long-standing advocacy for a just transition to a low-carbon economy. Since 2019, we have provided consistent feedback to policymakers and regulators that climate action must consider any social impacts on customers, employees or communities. Please see public advocacy on page 19 for further information.

Collaborative corporate engagements

World Benchmarking Alliance (WBA): Co-led Shell's engagement and supported investor interactions with Equinor, Chevron and ExxonMobil for a just transition in the oil and gas sector.

Financing a Just Transition Alliance (FJTA): Contributed to the initiative's work and collaborative engagement, partnering with other asset managers.

Social housing

In partnership with FPF, we released 'Net zero social housing: a just transition through a perfect storm'. The paper explores the challenge that net zero action could divert resources away from essential priorities such as building more affordable homes.

Energy

We collaborated with American and UK investors to provide feedback to National Grid on its just transition plans.

We also teamed up with Border to Coast to engage with CLP Holdings, focusing on developing a just transition plan.

Banks

We worked with Border to Coast and FPF to engage with HSBC, NatWest, Barclays and Lloyds on the unintended social impacts of the climate transition (see below).

Engagement: Just transition at Barclays

Understanding the role of capital

As key providers of capital, banks play a crucial role in supporting the transition to sustainable, low-carbon economies. But its climate commitments could create unintended social impacts. For example, decarbonising mortgage lending portfolios could lead to higher interest rates and remortgaging challenges for customers if not managed thoughtfully.

In particular, Barclays stood out as one of the banks that is implementing a robust approach to just transition.

Picking up from last year

In 2022, we attended the AGMs of, and met with, major UK banks – Barclays, Lloyds, NatWest and HSBC – advocating for the integration of a just transition into their climate plans. We reiterated the opportunities banks could capitalise on from financing net zero.

Maintaining momentum

In 2023, we continued our engagement efforts to ensure that banks like Barclays fully integrate a just transition into their climate transition plans, with clear evidence of implementation across products, sectors and regions. We led a collaborative group, including FPF and FJTA members, in meetings with Barclays. These discussions leveraged learnings from our previous work on just transition and insights from the TPT and the ILO/LSE Grantham Institute just transition finance tool.

Emerging best practice

Barclays has begun to incorporate its just transition approach into Client Transition Framework assessments of its corporate clients. We also saw improvements in its approach to residential real estate, and interesting developments in its regional offering for small-to-medium enterprises.

Next steps

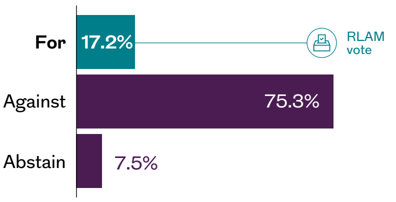
Our engagement with Barclays will continue into 2024, focusing on further integrating a just transition into the bank's climate transition plan.

Voting: Just transition shareholder proposals

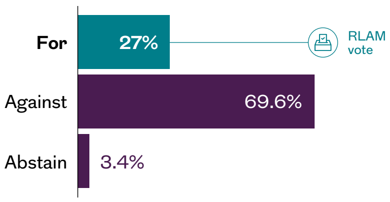
In line with our commitment to a just transition, we supported shareholder proposals urging companies to report how their climate strategies impact stakeholders. Read more about our approach to voting on shareholder proposals on page 93.

Shareholder proposals regarding just transition reporting

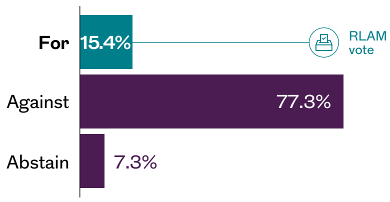
Chevron



Amazon



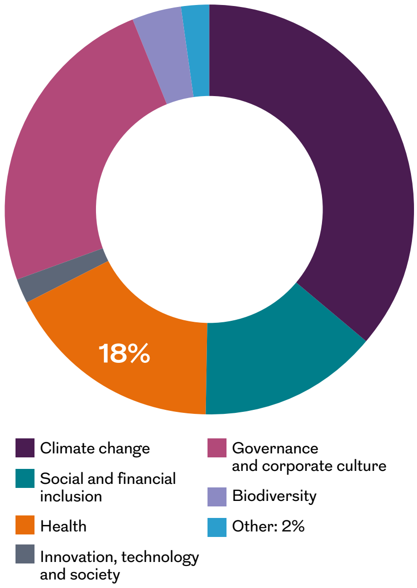
ExxonMobil



Health

We expect companies to enable and support healthy employees, customers and communities. We encourage greater transparency and positive social outcomes.

Health engagements



Highlights

- Supporting CCLA's workplace mental health benchmark
- Engagement with Rentokil on improving employee mental health
- Lead investor engaging with Roche, supporting affordable access to medicines.

142

engagements on health

126

companies contacted

Approaching health through an established framework

We have broadened our health theme to look at different stakeholders, from the workforce and consumers to community health. In 2023, we have been building our knowledge of health issues and raising awareness among our investee companies about various systemic health challenges.

Collaborations in 2023

Inspired by ShareAction's Long-term Investors in People's Health (LIPH) initiative, we have applied its framework for health by looking at it through three lenses: worker, consumer and community health.

Workforce health: We participated in a collaborative engagement led by CCLA, with a coalition of investors representing USD 8.7 trillion of assets (as of September 2023), focusing on mental health in the workplace[1]. We co-signed the letters sent by the investor coalition. We are the lead investor engaging with Rentokil Initial, the pest control specialists.

Consumer health: We have joined forces with the Access to Medicines Foundation. Notably, we are the lead investor engaging with pharmaceutical giant Roche.

Based on the research conducted by the Access to Medicines Foundation, we encouraged Roche to improve access to medicines in low- and middle-income countries.

These measures include developing comprehensive access plans for all late-stage research and development projects, exploring voluntary licensing as a strategy to increase access to oncology products, and expanding capacity building to support technology transfer and manufacturing capabilities.

Roche has expressed openness to these suggestions but has also highlighted the challenges. In particular, there is a lack of support from relevant governments and infrastructure constraints.

Community health: At the request of our fixed income fund managers, the Responsible Investment team initiated an engagement project to explore practices to manage damp and mould in the social housing sector. We are also investigating the risk of antimicrobial resistance and its management in the water sector through a collaborative engagement with several asset owners and like-minded investors.

Looking ahead

With feedback from clients and fund managers as part of our engagement consultation process, health will continue to be a core engagement priority. We'll continue to explore collaborative engagements and policy advocacy to determine how best to manage the risk of antimicrobial resistance and other systemic health issues.

1. https://www.ccla.co.uk/mental-health

Collaboration: Enhancing workforce mental health at Rentokil

The cost of poor mental health

In the UK, Deloitte recently estimated that the cost of poor workforce mental health can be substantial, falling between £43–46bn per year[2]. This expense arises from sickness absence, presenteeism and workforce turnover. Addressing mental ill health in the workplace is not only important to society but also offers tangible benefits to investors and businesses.

Working with others

We actively participated in the CCLA-led investor collaborative engagement focusing on the Corporate Mental Health Benchmark. We signalled our commitment to the initiative by signing the global investor statement and taking the lead in engaging with Rentokil Initial plc on this crucial issue.

Evaluating mental health practices

The initiative assessed companies on 27 criteria, spanning four thematic pillars:

1. Management commitment and policy
2. Governance and management
3. Innovation and leadership
4. Performance reporting and impact.

CCLA developed these criteria from publicly available information, with companies ranked according to their scores out of a maximum of 212 points.

Rentokil Initial plc

Rentokil is a global leader in commercial pest control and hygiene services, crucial in addressing health concerns around pest-borne diseases, poor hygiene and airborne pollution. In 2022, Rentokil Initial plc was placed in the lowest performance tier of the CCLA benchmark (tier 5) but improved to tier 4 in 2023.

In September 2023, we met the company to encourage enhanced disclosure and to understand its commitment to improving mental health.

Ownership at the board level

The company's CEO and one of its Non-Executive Directors lead employee wellbeing at the board level. Based on the recommendations from the Corporate Mental Health Benchmark, Rentokil expressed willingness to make a public CEO statement on mental health. It acknowledged the importance of line managers and country directors, in its decentralised structure, in achieving positive mental health in the workforce. The company was also open to improving disclosures around the number of managers trained, identifying case studies, and to consider industry initiatives or partnerships aimed at promoting mental health in the workplace.

Guiding better practices

We provided Rentokil with resources and examples of standards and guidelines on workforce mental health, including WHO guidelines and the ISO 45003 standard[3]. Rentokil welcomed our suggestions on improving disclosures, seeking examples of best practice and specific data and disclosure requirements from the collaborative engagement.

Planning future engagement

We'll reassess Rentokil's progress in the next annual benchmark scoring update. We aim to see Rentokil advance from tier 4 to tier 3. This assessment will guide our continued engagement and efforts to encourage change in mental health practices.

2. https://www2.deloitte.com/uk/en/pages/consulting/articles/mental-health-and-employers-refreshing-the-case-for-investment.html
3. ISO 45003 is a standard for psychological health and safety at work. Management of psychosocial risk within an occupational health and safety (OH&S) management system based on ISO 45001. It enables organisations to prevent work-related injury and ill health of their workers and other interested parties, and to promote wellbeing at work.

Innovation, technology and society

Artificial intelligence, data privacy, censorship and the ever-increasing growth of technology are issues we expect companies to scrutinise and plan for. In a rapidly evolving digital world, we support several initiatives to strengthen cyber resilience and the ethical application of technology in the companies we invest in.

Highlights

- Published an update on our cyber security collaborative engagement
- AbbVie adopts our best practice guidance in updated disclosures
- Voted for shareholder proposals asking for more transparency at big tech companies.

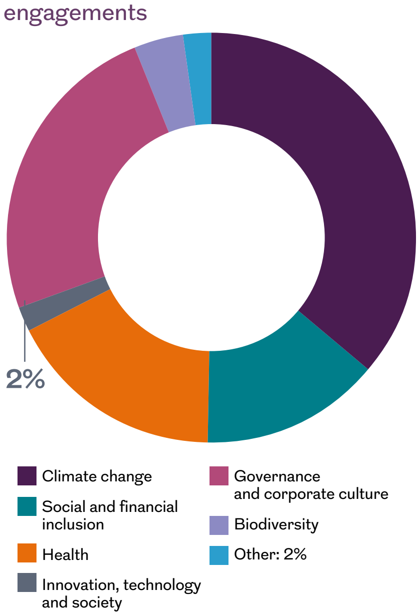
19

engagements on innovation, technology and society

14

companies contacted

Innovation, technology and society engagements



Collaboration: AbbVie improves cyber security disclosure

Maintaining our momentum

The digital era demands robust defences against cyber threats, making our ongoing engagement on cyber security important for safeguarding assets. We have identified best practices and this year started to engage for change with 7 companies. Our aim was to encourage implementation of our investor expectations.

Our analysis looks at governance, risk management, culture and supply chains. Hybrid working trends and geopolitical tensions, notably the ongoing crises in Ukraine and the Middle East, have triggered greater urgency.

The challenge of transparency

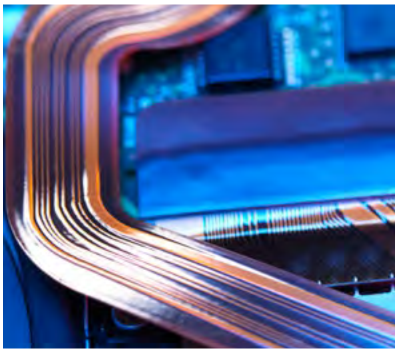
Despite the critical nature of cyber security, companies are often hesitant to disclose information due to the sensitive nature of the topic. Disclosure can sometimes lead to more cyber attacks. Therefore direct engagement has been critical, with 72% of the targeted companies responding to our outreach in the last three years.

AbbVie: Engaging for strong cyber security practices

AbbVie is a significant player in the US biopharmaceutical sector, focusing on developing and commercialising treatments for chronic and complex diseases. Its position in the healthcare industry places the company at a heightened risk of cyber threats, making it a crucial focus for our engagement efforts.

Gaining valuable insights

We worked alongside the Rail Pension Fund (Railpen) to engage with AbbVie on areas where they could improve their approach and disclosure. Our dialogue with AbbVie's directors provided valuable insights and reassurances about its commitment to cyber security, showcasing a consistent application of cyber security principles across its business, including within a recent acquisition.



Engagement success

Our collaborative engagement prompted notable improvements such as updated director biographies that highlight cyber security expertise. In addition, the company's ESG report now includes a section on cyber security, implementing a number of our best practice expectations:

- Describing the Audit Committee's oversight of cyber security
- Information on the Chief Information Security Office (CISO)
- Tailored workforce training
- How it monitors suppliers' cyber security protocols.

Report: Cyber Security Engagement Phase 3

You can read more about our cyber security strategy, regulatory changes, best practices and insights from our ongoing engagement initiative here.

Voting: Big Tech

It can be difficult to engage directly with major technology companies. This is where we can rely more on voting to express our views and try to influence change. Our 2023 interactions with the largest US technology companies – or 'Big Tech' – Meta Platforms, Alphabet and Amazon, focused on asking for greater disclosure, transparency and accountability for managing the social risks and impacts related to newer and emerging technologies that may carry more unknown risks.

Meta: Navigating content management challenges

Meta Platforms owns well-known brands like Facebook, Instagram and WhatsApp. We supported a number of shareholder proposals urging improvement to how Meta moderates and manages content. This is line with our approach to voting on non-binding shareholder proposals. There was a specific proposal (7) related to India, where the company's platforms have been accused of exacerbating ethnic and religious conflicts. An additional proposal (10) sought transparency in content policy enforcement amid concerns of fake news, election interference and hate speech. There was also a request (proposal 11) to assess the impact of content on child mental health and safety.

Alphabet: Scrutinising algorithm use and privacy issues

There were 13 shareholder proposals at Alphabet's AGM (Google's parent company) this year. We supported a proposal asking for more transparent disclosure on algorithm use to address concerns about privacy and ad targeting (proposal 12). We also supported one asking the company to align its company-wide policies with the rigorous online safety regulations in the UK and EU (proposal 13).

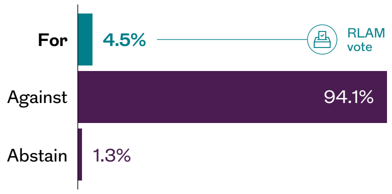
However, we voted *against* a request for a 'content governance report' (proposal 14). The proponent is concerned that the company is engaged in 'unconstitutional censorship' of free speech on its platforms. We were concerned the proposal could weaken protections and safeguards.

Amazon: Addressing censorship and facial recognition concerns

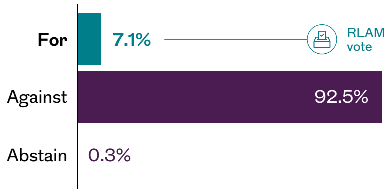
The online retailer had 18 shareholder resolutions on its ballot this year. We supported a request (proposal 8) for more transparency on its response to requests from foreign governments to remove products or restrict content. We also supported a proposal (23) regarding the human rights impacts of Amazon's facial recognition technology, Rekognition.

Similar to the proposal at Alphabet, we voted *against* a proposal (9) focused on 'unconstitutional censorship'. The proponent is concerned about actions to restrict information and free speech. We agreed with the company's argument that it has appropriate policies in place.

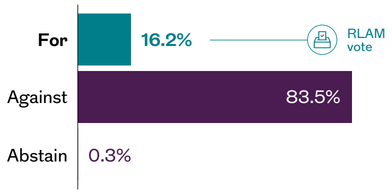
Proposal 7: Report on content management in India



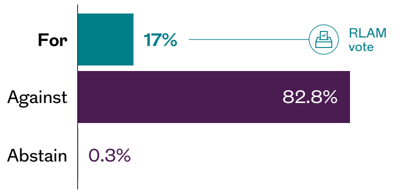
Proposal 10: Report on efficacy of enforcement of content policies



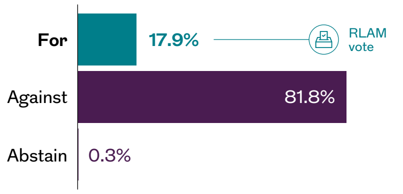
Proposal 11: Targets and report on child safety impacts



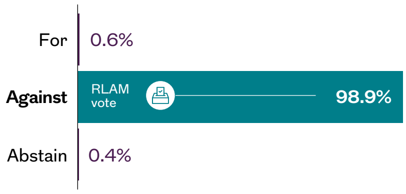
Proposal 12: Algorithm disclosures



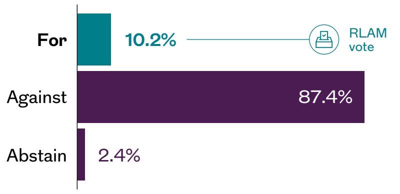
Proposal 13: Alignment of YouTube policies with legislation



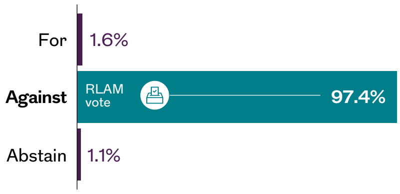
Proposal 14: Content governance report



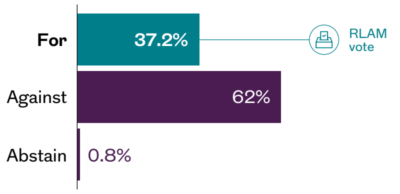
Proposal 8: Government requests for content and product removal



Proposal 9: Government takedown requests



Proposal 23: Human rights impacts of facial recognition technology



Governance and corporate culture

Good governance, a healthy workplace culture and a diverse workforce create resilient businesses and support inclusive decision making. We expect companies to have strong boards, appropriate pay structures, and robust audit and accounting procedures.

Highlights

- Engaging with Glencore on remuneration and health and safety
- Progress on gender diversity at Bandai Namco in Japan
- Ferrexpo makes progress on ethnic diversity targets.

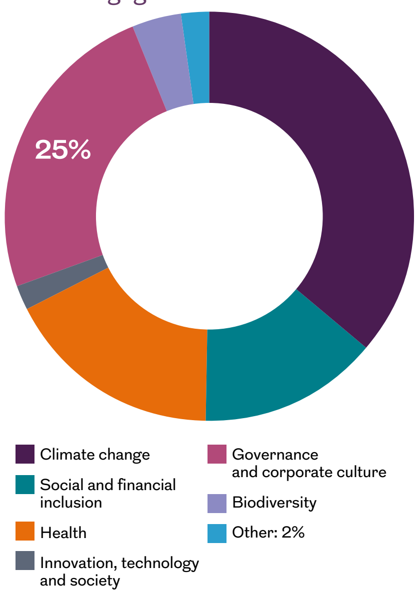
197

engagements on governance and corporate culture

142

companies contacted

Governance and corporate culture engagements



Rio Tinto: Workplace culture

Workplace culture challenges

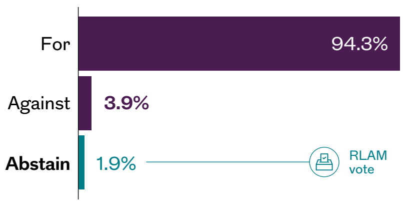
Back in February 2022, the British-Australian mining giant's external review exposed systemic bullying, sexism, sexual harassment and racism. Despite commitments to address this there was another reported assault and the company has acknowledged this as a serious challenge that must be addressed.

Clarifying ESG metrics

Prior to the 2023 AGM vote, we sought clarification as to how the ESG metrics had been applied to the bonus, specifically those linked to the cultural issues. The metrics used focused on leader training and facility improvements, rather than wider recommendations from the external review. Despite the reported assault, the company chose not to adjust the 'safe and inclusive facilities' bonus metric.

Vote: Remuneration report

We acknowledged some progress in implementing the external review. However, due to the recent incident we believe more stringent bonus metrics around the 'safe and inclusive facilities' metric should be implemented. We *abstained* on the report.



Engagement and voting dynamics

While Rio Tinto acknowledged the need for increased engagement on workplace culture issues, the low level of shareholder dissent (approximately 4% *against* remuneration) meant the company was not required to address the issue publicly.

Our stance and future actions

Our *abstain* vote leaves room for us to escalate at future AGMs, should we remain concerned. Notably, Rio Tinto plans to increase the focus and weight of this performance metric in 2023, doubling its impact on executive bonus calculations to 5%.

Glencore: Remuneration and worker health and safety

Addressing changes to Glencore's remuneration policy

We met Glencore, a diversified natural resources company, to discuss changes to its remuneration policy.

The Remuneration Committee Chair outlined the company's proposals to overhaul the current annual bonus and restricted share plan.

The new plan would provide a greater link to strategy delivery, financial and operational performance, and ESG considerations.

Understanding Glencore's safety and climate considerations

The company sought to reassure us following our questions on the continued importance of safety metrics and how these influence remuneration outcomes.

On climate targets, the focus was on whether capital expenditures included items such as expansionary spending on thermal coal.

Advocating against contradictory performance drivers

We advocated for the inclusion of a performance modifier to reflect any in-flight changes in ambition in Glencore's climate plan, and to mitigate any potential contradictions with remuneration.

The company showed openness to our feedback and promised updates once the policy was finalised.

This will be put to a shareholder vote at the 2024 AGM.

Collaboration: Gender diversity in Japan

Background to the programme

The 30% Club Investor Group, of which we are members, focuses on increasing gender diversity and representation at the board and executive levels. The Japan chapter aims to achieve 30% women directors by 2030. In 2022, we led a programme with five other investors, targeting nine companies to advocate for enhanced gender diversity.

Continued collaborative efforts in 2023

Our 2022 engagement highlighted barriers but also positive shifts in flexible work policies and regulations. We renewed our collaborative engagement in 2023, extending the initiative to human resource strategies and workforce engagement to reflect a broader approach to diversity.

In 2023, we spoke to Bridgestone Corporation, Kamigumi Co. Ltd, Otsuka Corp., Sanwa Holdings, Marubeni Corporation and Bandai Namco Holdings.

Example: Gradual, positive shifts at Bandai Namco

We met the investor relations team of Bandai Namco, a leading games and entertainment manufacturer. We observed a gradual shift towards greater gender and international diversity and inclusive practices:

Board-level diversity initiatives: Internal discussions are ongoing over the creation of quantitative targets.

Workforce diversity challenges and progress: Past difficulties recruiting female managers is changing with the influx of younger, more diverse recruits.

Diversity policy and international inclusivity: While lacking targets, data has been published on the internal gender ratio, and international experience has been increased with new hires.

The discussion was informative, with the company pointing to its successes and the specific barriers to improving its diversity.

Insights from our engagement with Japanese companies

Systemic challenges in gender diversity: Non-inclusive HR policies and unconscious biases may remain, but are slowly being addressed.

Progress in board discussions: Encouragingly, boardroom conversations are gradually shifting towards inclusivity and retention strategies to advance diversity, equality, and inclusion (DEI).

Current stance on joining the 30% Club: Most companies we engaged with are not yet prepared to join the corporate chapter of the 30% Club. There is however a growing recognition among executive teams and directors of the importance of diversity.

Future engagement and DEI integration

In our upcoming third wave of engagements, we'll assess whether these companies have set credible targets and more fully integrated DEI into their corporate agendas.

Enhancing employee voices on boards

Launch of workforce engagement guidance

In April 2023, we joined forces with Railpen and six other investors, collectively managing around £400bn, to introduce practical guidance for companies on how to integrate employee perspectives at board level effectively. This initiative, focusing on the potential role of workforce directors, aims to define excellence in workforce engagement and representation.

Collaborative roundtables to share best practice

In May 2023, we attended a roundtable to discuss current company practices and practical challenges, as well as investor perspectives on the issue. By August 2023, the investor coalition had identified target companies for engagement and formulated an outreach plan.

Targeted engagement and communication

We spoke to two companies about their approaches to workforce engagement. Specifically we asked how they are integrating employee perspectives into strategic decision making.

UK Corporate Governance Code

The UK's Financial Reporting Council (FRC) engaged in a public consultation to amend the UK Corporate Governance Code, which concluded in September 2023.

The proposed changes include:

- Shifting corporate reporting from an action-oriented to an outcomes-based approach, aligning with previous modifications to the UK Stewardship Code to emphasise outcomes.
- Enhancing audit and assurance processes and fostering better engagement between investors and audit committees, historically an area of limited focus.
- Integrating succession planning and broader ESG considerations into the Corporate Governance Code to reflect the evolving corporate governance landscape.

Our response with RLMIS: We developed a coordinated response to the consultation's 26 questions with the Royal London Mutual Insurance Society (RLMIS) and submitted it to the FRC in early September 2023.

Ethnic diversity

Background

In 2020, we established an ethnic diversity engagement programme in two phases:

- **Phase one:** to 'learn from the leaders' and encourage the adoption of formal reporting and target setting.
- **Phase two:** to seek commitments to align with the UK Parker Review targets and develop better disclosure.

Progress in 2023

This year, as we approach the 2024 target for FTSE250 companies, we followed up with a number of companies to assess progress. We also joined a collaborative engagement programme with the 30% Club Investor Group.

Sabre Insurance

Significant improvements: Since our last conversation, Sabre, a UK-based motor insurance provider, has notably improved. The company now has a diversity, equity and inclusion (DEI) policy and is making efforts to recruit diverse candidates at all levels.

Overcoming workforce challenges: Despite having a small workforce of fewer than 200 employees and having a geographically limited talent pool, Sabre has effectively used its hybrid working model to extend recruitment to more diverse London boroughs.

Board composition and alignment with Parker Review: The company has made a significant stride by appointing a new diverse board director this year, aligning with its broader diversity goals.

Ferrexpo

We led a collaborative engagement with Ferrexpo, a commodity trading and mining company, alongside investors from the 30% Club.

Understanding DEI and board representation: In November, we discussed its strategies for ethnic minority representation on the board and wider DEI initiatives. The company remains committed to meeting its goal of appointing one diverse director in 2024.

Progress despite challenges: Despite operating predominantly in war-torn Ukraine, the company is making significant efforts to increase gender representation and foster inclusion, following the repeal of a Soviet-era government ban on women working underground in jobs that were previously considered too physically demanding.

Gender pay gap reporting

Understanding the gender pay gap

The gender pay gap (GPG) measures the disparity in average pay between all men and all women in a workplace. It is different from equal pay, which is a legal requirement in the UK that mandates that men and women should be paid equally for the same work.

Gender equality: While an imperfect measure, GPG can provide insight into company culture, recruitment and career progression.

Gender representation: The pay gap is influenced by gender representation across an organisation. A company with equal pay can still exhibit a significant pay gap if women predominantly occupy lower-paid roles.

Complexity in reporting

The primary challenge lies in the data comparability across companies, industries and countries. Different measures and reporting standards make aggregation and calculations difficult, particularly when calculating at fund level.

Fund-level pay gap reporting

This year we started exploring GPG data at fund-level for two of our funds, manually sourcing the data from company disclosures. Unfortunately the figures reported by companies were often unreliable and inconsistent. Data coverage was between 8% and 18% of people employed by the companies in those funds.

Challenges

- Low data coverage
- Inconsistent data across countries
- Poor global workforce representation.

Conclusions

Significant improvement to data reliability and reporting is required before GPG data can be considered decision-useful for investors.

More guidance and stringent reporting requirements are coming as part of the EU's Corporate Sustainability Reporting Directive (CSRD), which will hopefully help improve the quality and consistency of reporting.

Governance and corporate culture *continued*

Voting: Executive pay after the pandemic

Social spotlight on remuneration practices

Due to wider inflationary pressures, scrutiny intensified on companies' remuneration strategies for their entire workforce, particularly in the context of the decisions made around executive pay. While most companies adopted a restrained approach during these challenging times, some diverged from this trend, raising concerns about equitable compensation practices.

Hilton Food Group

Hilton Food Group, a global food packaging business, proposed executive salary hikes significantly larger than those for its broader workforce. The proposals were not extreme for the size of the company, still this disconnect prompted us to *abstain* and write to voice our concerns and request a meeting to understand how the company's remuneration committee integrates workforce considerations into its pay decisions.

Future plc

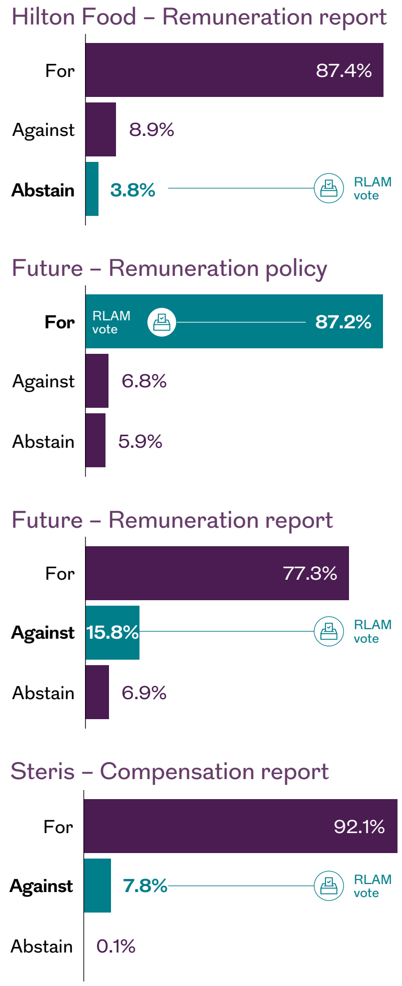
In the 2022 remuneration consultation, we raised our concerns with Future, a global proprietary media platform, about its:

- plans to significantly raise executive salaries
- non-stretching targets under its new Performance Share Plan
- increases to the CFO's award units under a discontinued plan.

We communicated these issues to the company with a letter explaining our stance and, at the time of the AGM, we voted *for* the new remuneration policy. We did still however maintain our concerns with how remuneration was awarded during the year under the old policy, so voted *against* the remuneration report in 2023.

Steris plc

Steris, a global leader in infection prevention and patient care products, increased its CEO's salary by over 20%. Additionally, its long-term incentives – consisting of premium-priced options and restricted stock – lacked meaningful performance criteria. We voted *against* the say-on-pay proposal, preferring phased salary increases and a more performance-oriented long-term incentive plan.



Advocacy: Improving vote transparency

Vote Reporting Group (VRG)

We joined the Financial Conduct Authority's (FCA) VRG in November 2022. As we have disclosed our full voting records for a number of years, the goal was to use that experience to help develop the recommendations for a broader consultation.

Client benefits: We believe voting disclosure is crucial for our clients. It enables them to compare managers effectively, assess alignment with their views and maintain transparency with their beneficiaries.

Industry efficiencies: From our perspective, automating and systemising this could help encourage greater disclosure, reducing manual efforts and costs. It would allow stewardship and responsible investment teams to spend less time on reporting and more time to focus on voting and engagement activities.

Group discussions: We co-led the 'rationales' sub-group, comprising representatives from other asset managers, asset owners, service providers and experts. The group was charged with defining the nature and extent of information sought alongside a vote. Discussions concentrated on the challenges of providing both consistent and informative voting rationales at the scale that would be required.

Challenges and opportunities

The final industry-wide consultation took place in August and September 2023. In our response we supported the call for full transparent disclosure.

We also acknowledged the practical challenges for the industry, namely establishing a consistent taxonomy, voting system compatibility and the responsibility of the management of a public database.

Next steps: We are awaiting the outcome of the consultation and announcement of any next steps. In the interim we continue to provide our voting records and rationales on our website.

Biodiversity

We aim to understand the impact of our investment decisions on biodiversity and the associated dependencies, risks and opportunities. We have started to engage with companies to improve their stewardship of nature, encouraging them to enhance their knowledge, management and disclosures to protect our environment.

Highlights

- Outreach to UK house builders on meeting biodiversity net gain requirements
- Grosvenor has ring-fenced funding for biodiversity net gain management in projects for which it has full control
- Joined Nature Action 100, a collaborative engagement initiative addressing biodiversity loss globally.

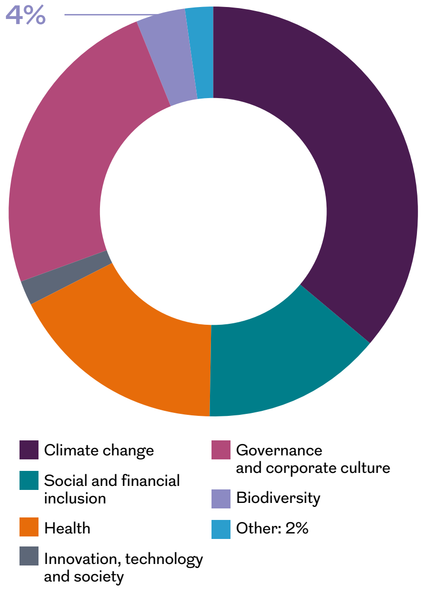
32

engagements on biodiversity

19

companies contacted

Biodiversity engagements



Research: Combatting nature loss in England

Preparing for new regulations

England is introducing the Biodiversity Net Gain (BNG) legislation, a European first, to combat significant nature loss. BNG requires developers to make a minimum 10% net positive impact ('net gain') on biodiversity compared to what was there before the development. This can be achieved by on-site improvements or through off-site biodiversity credits. We own shares and bonds in a number of house builders and property developers who will be subject to the new legislation. We've conducted research and engagement to identify best practices and help our companies prepare for the new requirements.

Key questions

1. How prepared are companies?
2. Can we encourage higher biodiversity ambitions?
3. What are the limitations of the new BNG regulation?

Identifying best practices

Effective governance: Companies should integrate accountability for biodiversity across the organisation. This includes defining clear roles for BNG delivery and oversight, aligning company culture with strategic goals, adopting adaptive management plans, and having secured funding for habitat management. They also need to ensure they have the right expertise.

On-site improvements: When speaking to companies, most prefer direct, on-site efforts to improve biodiversity. Many find the 10% gain target achievable, especially on brownfield sites. Examples include living roofs, bird and bat boxes, green walls and biodiverse landscaping. Best practice includes exceeding the 10% minimum requirements and applying BNG principles outside of England and internationally.

Off-site credits and offsetting: Off-site credits or 'offsets' are more robustly governed but are more expensive and can have less direct local benefits. Companies should adhere to third party offsetting standards such as Principles on Biodiversity Offsets, ensuring responsible, verifiable biodiversity contributions. There are opportunities too. One company we spoke to plans to establish a nature bank to sell credits to the broader market.

Interactions between people and nature: Developers must balance building resilience to climate change and minimising supply chain impacts. Large developers understand the interplay between people, nature and climate, but implementation varies. Best practices include integrating BNG with environmental strategies, transparently reporting supply chain and landscape management actions, and considering climate resilience and community needs.

Challenges

- On-site BNG initiatives are less well regulated than buying credits
- There may be governance gaps for on-site improvements, as these are managed by different local councils
- Small-scale initiatives may result in habitat fragmentation.

Areas for improvement

- Development of adaptive habitat management plans
- Ensuring access to ring-fenced funds
- Upskilling and training for property management teams.

Conclusions and next steps

Our research and discussions with companies highlighted that there is a general awareness of biodiversity issues. However there is a need for more robust, long-term biodiversity strategies. These should be science-based, transparent, and consider people and climate factors.

More about our biodiversity research

You can read more about our research on our website. It highlights the complexity of biodiversity, offering best practice insights and identifying challenges for both companies and investors.

Biodiversity *continued*

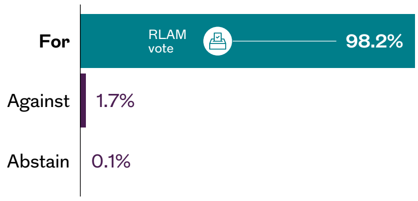
Voting: Climate and biodiversity

We acknowledge that biodiversity is a complex and emerging area for companies. As we develop our own research and capabilities, we will refine our expectations of companies. Our current voting position is that companies should disclose and address the significant ESG risks to their business, including any business impacts that may occur as a result of nature loss.

Icade: Climate and biodiversity

Icade, a French real estate developer, is the first company we've seen integrate a biodiversity plan into its climate transition strategy, focusing on soil and urban biodiversity protection. This progressive approach received substantial support with 98.2% approval. Royal London Asset Management voted *for* the climate transition strategy.

Icade: Approval of climate transition and biodiversity strategy



Grosvenor UK: Best practice in biodiversity net gain

Grosvenor UK stood out as a leader in its approach to BNG. The company has set targets above the required 10%, and it includes both existing developments and new ones. As an urban developer, Grosvenor typically develops brownfield sites, where it is easier to achieve BNG than on greenfield sites. Grosvenor is the only company we spoke to with ring-fenced funding for BNG management, in projects for which it has full control, including gardeners and landscape managers, which we commend.

Good disclosure and transparency

Grosvenor's 'Biodiversity Buffet' showcases its biodiversity design interventions which is best practice in disclosure and transparency.

Social priorities

Grosvenor prioritises social equity and accessibility of green spaces. It is also working on its supply chain transparency. Our continued engagement will focus on how property developers can further improve their on-site and off-site biodiversity.

Collaborative engagement: Nature Action 100

Nature Action 100 targets the largest companies globally that are critical to reversing biodiversity loss.

The critical sectors targeted are in biotechnology, chemicals, consumer goods, food processors and retailers, forestry and packaging, and metals and mining. We joined Nature Action 100 with other investors to help drive worldwide change to address nature loss. We will help establish a common engagement agenda and a clear set of expectations for companies. Through Nature Action 100 we are engaging with companies in the food product and the paper and forest product industries.

ESG integration

ESG integration

Responsible investing is a cornerstone of our business, rooted in our belief that well-managed companies can yield better long-term returns. We believe integrating environmental, social and governance (ESG) and climate factors into our investment analysis and decisions helps us mitigate material investment risks which can help boost long-term returns.

Client-centric approach and long-term perspective

We focus on the future to retain the trust our clients place in us. Our investment teams, supported by expert central functions, are actively managed and evidence-led. Each investment team offers a differentiated active approach underpinned by our investment principles, including a robust risk management culture, and a focus on long-term, sustainable returns.

A cornerstone of our strategy

Being trusted stewards and integrating ESG into our investment decision making is fundamental to our role as responsible investors. It is also a core part of our new Investment Principles, which we developed in 2023 to articulate more clearly our approach to investing for the benefit of our clients. Recognising the significant impact of ESG factors on asset prices, we tailor our ESG analysis to the specific nuances of the assets we manage. This approach ensures we consistently operate in the best interests of our clients, enhancing standards, reducing risk and boosting returns in their investment portfolios. As active stewards of our clients' capital, we use our influence to effect positive change for the mutual benefit of our clients and society.

Investing in our people and systems

In 2023, we deepened our commitment to ESG integration, enhancing our systems and embedding our responsible investment ethos more thoroughly into our business. Our team of responsible investment professionals collaborates closely with our fund managers and analysts, providing bespoke ESG analysis, proxy voting and engagement support.

We channel our in-house expertise and external research through our ESG dashboard and analytical tools to enhance our fund managers' ability to make active investment decisions. We developed these tools to help collate and summarise ESG information at company level, including voting and engagement information, basic ESG scoring and trends, and detailed carbon performance data and analytics.

Providing our clients with choices

Responsible investment and stewardship can mean different things to different investors. That's why we emphasise transparency – engaging with our clients to ensure we understand their priorities and they know what our approach is delivering. We know there are a number of alternative pathways to meet sustainability and net zero goals, and that our clients will want to use different approaches depending on their values, goals and investment objectives. That is why we offer a variety of choices to clients who want to invest responsibly. We have strategies that incorporate ESG through active stock picking or by applying active quantitative ESG and climate tilts. For example, our sustainable fund range offers clients across the risk spectrum an award-winning approach to sustainable investing. And through our transitions strategy, clients can invest in companies that may not be considered sustainable today, but are making a meaningful improvement over time.

Our investment principles

Our principles are a reflection of our fundamental approach to investing actively for the benefit of our clients

Differentiated active approach

Open-minded, independent and long-term

Distinct culture

Empowered teams, expert central functions

Trusted stewards

Passionate about responsible investment

Purpose driven

Doing the right thing, building a better future

Equities

UK equities

Our highly experienced UK Equities team searches out the best investment ideas within the UK equity market. ESG analysis is critical to the team's risk assessments, especially for challenging sectors such as oil, mining, food service and manufacturing.

Highlights

- Site visit to see **Taylor Wimpey's** activities to phase out gas boilers in new build homes
- Our holdings in **Diageo** benefit from trends such as consumers drinking less but consuming more expensive beverages
- Concerns about governance and management turnover at **IntegraFin** were resolved following engagement.

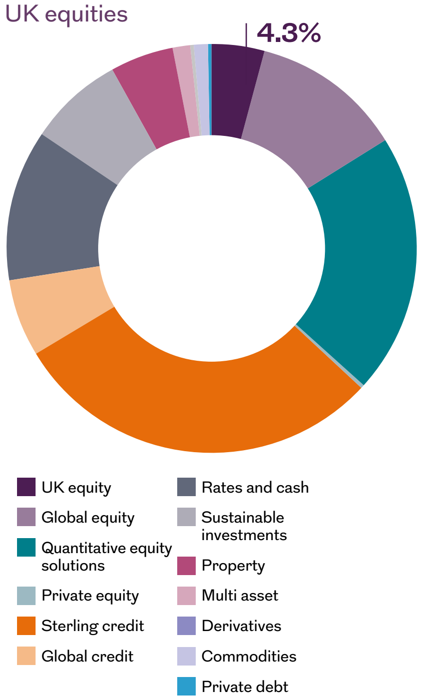
£7bn

assets under management

225

company meetings voted

UK equities



The challenging dynamics of the UK

Investing in the UK market presents ESG challenges and opportunities, with significant exposures to sectors such as oil, mining and utilities currently in the spotlight. The push towards decarbonisation creates opportunities for innovation and collaboration, particularly in cleaner energy solutions. But many of the large, mature industrial businesses in the UK market face ESG challenges. Wage inflation is posing a challenge for companies to maintain low prices and competitiveness while simultaneously addressing the growing demands for employee wellbeing. Finally, the rise of generative artificial intelligence (AI) like ChatGPT brings the potential for substantial shifts in business models and societal structures which can significantly impact the companies we invest in, reinforcing the need for vigilant monitoring.

A leading investor in the UK stock market

We have an experienced and established UK Equities team that manages a diverse range of active strategies. At the core of our approach is fundamental stock picking, grounded in direct engagement with companies and a deep understanding of their business dynamics, ESG considerations and potential opportunities. The team's experience of navigating investments through varying economic and business cycles further solidifies our position as a leading and trusted investor.

A trusted voice and valuable partner on ESG matters

Our enduring commitment to stewardship, paired with our long-term investment horizon, cultivates solid and lasting relationships with the companies we invest in and across all market-cap segments. They often turn to us for guidance on corporate governance and, increasingly, climate matters, positioning us as a valuable partner for developing their sustainability agendas. That level of meaningful access to management allows us to gain valuable insights into how companies manage ESG issues.

Navigating the risks and opportunities

Material risks: Our analysis helps uncover material ESG risks that could span assets 'stranded' by shifts in demand or regulations from the low-carbon transition, reputational harm, legal or governance concerns, or poor employee practices, ensuring a thorough understanding of potential challenges.

Exclusions: Although we don't strictly enforce an exclusions policy on our UK equity funds, we are proactive in managing high-risk issuers, opting to engage and drive improvements. When ESG risks impact the company's valuation, we will reconsider our investment.

ESG opportunities: We seek out companies deriving a clear competitive advantage from better-than-average ESG performance, enriching our investment insights and providing a buffer against the risks associated with the companies we choose to avoid.

Engagement

Our role as equity investors carries substantial stewardship responsibilities, demanding active engagement with management teams to discuss and shape corporate strategies. Our extensive interactions with UK companies enables us to exert influence, ensuring that ESG considerations are integral to their operations and plans.

Diverse interaction: Our engagement is not limited to executive teams. We actively seek dialogue with non-executive directors and chairs, aiming for a comprehensive understanding of corporate governance practices in the UK.

Voting for change: Our stewardship practices extend to our voting activities, with close collaboration between our UK Equities team and the Responsible Investment team to make informed voting decisions that reflect our commitment to responsible investing.

Support and active participation: Our Responsible Investment team provides ESG expertise to individual company engagements and conducts broader portfolio analysis. The fund managers work closely with the Responsible Investment team to understand ESG issues within a portfolio to help uncover risks and identify opportunities for engagement.

UK equity income strategies

We focus on investing in established companies with mature business operations and robust cash flow generation. These companies are well-positioned to distribute attractive dividends, aligning with the income-oriented goals of these strategies.

We evaluate ESG from two critical perspectives:

- Identifying potential risks from ESG factors that are poorly managed or that are not accurately reflected in the share price
- Recognising and valuing companies that proactively adapt to global changes, or carve out competitive advantages in their industries.

This dual-faceted approach aims to deliver durable income while investing responsibly on behalf of our clients.

"We get to know our UK stocks well and our investment decisions are based on a deep understanding of businesses and the risks and opportunities associated with their ESG profiles."

Richard Marwood
Head of Income

Drax

Drax stands out as a significant player in the UK's renewable energy sector. It is the largest renewable power producer domestically and the second-largest global producer of sustainable biomass.

Market misunderstandings and volatility: Drax's share price often fluctuates significantly, largely due to the market misinterpreting its business model. The company faces complex challenges involving biomass, carbon capture and the necessity for dispatchable power amidst growing dependence on intermittent renewables. Our comprehensive understanding of Drax's strategic importance to the national grid has allowed us to invest more, capitalising on this market volatility.

Proactive engagement and investment: We maintain frequent communications with the company, ensuring we are updated on the latest improvements to its sustainable biomass sourcing, climate transition plan and stakeholder engagement.

Future vigilance and monitoring: Given the substantial holding within our portfolios, we continue to engage with Drax and its new Chief Sustainability Officer to monitor its alignment with our investment objectives and ESG standards.

Taylor Wimpey

Taylor Wimpey, a leading residential developer in the UK, is proactively adapting to upcoming regulatory changes that will transform the housing construction landscape.

Regulatory challenges in housing construction: The impending regulations phasing out gas boilers in new houses by 2025 present significant design and build challenges for Taylor Wimpey and the wider housing sector.

Engagement and confidence in strategy: Our site visits to view prototype homes and other engagements have given us confidence in Taylor Wimpey's plans to meet these new standards, especially concerning new developments.

Ongoing monitoring and assurance: We recognise the more significant challenges lie with existing housing stock. However, our continuous monitoring and engagement efforts assure us of Taylor Wimpey's capability to adapt and thrive in this changing regulatory landscape.

UK equities *continued*

UK equity 'all-cap' strategies

We invest across the broader UK equity market, focusing on businesses poised for long-term growth. We select companies that are capable of delivering substantial returns to shareholders.

Tapping into the ESG mindset: A company's ESG performance and future ambitions provide valuable insights into the mindset of the management, their alignment with shareholder interests, and their potential to make a meaningful impact on issues such as carbon emission reduction.

Responsible remuneration: We examine each holding's remuneration scheme, and use voting and engagement as a meaningful way to connect with companies. While UK corporates generally uphold commendable pay practices, we will vote *against* any proposals we believe are not in the long-term interests of shareholders, ensuring accountability and transparency.

Environmental engagement: Addressing environmental challenges is crucial, particularly in high-carbon emitting industries like oil and mining. We engage with these sectors to encourage continual improvement to environmental practices to help address future financial risks and reduce the impact these companies are having on the environment and communities.

Analysing critical factors: As an active UK shareholder, we benefit from having good access to corporate management teams, aiding our comprehensive analysis of a company's potential. As described in the examples of Compass Group and Diageo, we evaluate the quality of the business model, management's track record, their end market opportunities, corporate valuation, ESG record, and future objectives to form a well-rounded view of the company's prospects.

"We believe that to make a full judgement of any company that we own or potentially will invest in, we need to assess their ESG record and aspirations as much as the business model. We look at quality of management and the markets that they operate in to gain an overall perspective of the quality of that business."

Joe Walters
Senior Fund Manager

Compass Group

Compass Group is a global outsourcing leader, dominating the food services market across various continents.

Commitment to sustainability: With strong operational excellence and financial returns, our engagement focuses on sustainability. Our interactions with the management, from the CEO to the Investor Relations (IR) teams, highlights their commitment to net zero targets, responsible food sourcing, and waste reduction.

Supporting customer sustainability: From our engagement, sustainability appears core to its operations and is an attractive quality for its customers under pressure to evidence the sustainability of catering operations.

Investment decision and impact: From our perspective, Compass is a valuable investment for our funds, offering a resilient, differentiated model with growth potential, superior profitability, leading brands, top-tier ESG credentials, especially on workforce gender balance, and strong digital capabilities.

Future engagement and transparency: We aim to engage further for greater transparency and improvement in food sourcing, animal welfare and local standards around its global operations.

5

engagements with Compass Group PLC in 2023

Diageo

Diageo, a leading name in the alcoholic beverage industry, holds a vast portfolio of brands distributed globally, including Guinness, Baileys and Tanqueray among others.

Overcoming sector challenges

Investing in alcohol companies can prove challenging for some investors. However, we view Diageo as a leader in its sector, managing the social and environmental impact of both its operations and its products.

Responsible consumption: Diageo promotes responsible drinking explicitly through its launch of non-alcoholic options and extensive marketing and education programmes, and implicitly in its strategy of premium-led growth, moving away from value- and volume-based targets.

Excellent ESG management: Diageo has consistently earned top Carbon Disclosure Project (CDP) ratings for water and carbon, has set ambitious sustainability targets in energy, water and packaging; and excels in governance, with a diverse board and transparent pay practices.

Cultural understanding and investment decision: Our commitment to hold Diageo in our funds is based on 10 years of strong performance against the FTSE All-Share Index, reflecting sales and profits growth across an array of brands, and a proactive position towards social trends such as consumers drinking less but consuming more expensive beverage.

UK equity mid and small-cap (alpha) strategies

Focus on growth and alignment

We seek companies with the potential for substantial growth in earnings and cash flows over a three- to five-year horizon, emphasising alignment between management and equity shareholders through responsible capital allocation, assessed using our SIMBA process (Scalability, Innovation, Management, Barriers to entry and unique Assets).

Overcoming data limitations: The investment universe of smaller companies often lacks ESG data, requiring a qualitative, stock-specific approach to evaluate ESG risks and opportunities accurately, and to counteract the shortcomings of large-cap international quantitative models.

Positive ESG characteristics: We target companies benefitting from ESG-related structural tailwinds while avoiding those with significant ESG or regulatory risks. For example, we currently do not hold gambling companies for this reason.

Leveraging in-house expertise: Our strategy incorporates an ESG assessment, and we actively engage with portfolio companies through voting at shareholder meetings. Our Responsible Investment team supports our investment decisions with insights and a proprietary ESG dashboard, which captures all research, ESG scoring, and the historical voting and engagement records for all companies we invest in.

Leveraging in-house expertise for ESG assessments and engagement: Incorporating extensive ESG evaluations and active engagement through voting, we leverage our Responsible Investment team's insights, tools and historical records to ensure responsible and aligned investing.

"ESG is not about compromising on investment returns, it is about protecting and enhancing them."

Henry Lowson
Head of UK Alpha Equities

IntegraFin Holdings

IntegraFin Holdings is a provider of software and services aimed at simplifying financial planning.

Governance and management concerns
Our initial unease centred around the governance structure, particularly the turnover at the management level and unfilled executive roles.

Engagement and resolution
Through multiple discussions with the CEO and Chairman, we expressed our concerns and saw subsequent appointments to vital management positions such as Chief Financial Officer, Chief Risk Officer and Chief Technology Officer.

Remuneration improvements
While changes to remuneration are still in progress, we are encouraged by the board's responsiveness to our preference for a structure that encourages innovation and long-term ambition, and provides an incentive to achieve its financial targets.

We continue to invest in the company and have an ongoing dialogue, especially regarding remuneration policies.

Cranswick

Cranswick is a prominent and growing UK food producer and supplier, with a focus on animal welfare.

Sustainability and biodiversity
We co-signed a letter from FAIRR (the Farm Animal Investment Risk and Return initiative), urging Cranswick to address risks associated with animal waste and its potential as a pollutant and driver of biodiversity loss.

Engagement and assessment
We met Cranswick to understand more about the company's evaluation of its biodiversity risks associated with managing manure and animal waste, and the current strategy and action plan to manage these risks.

Ongoing dialogue and improvement
Further engagement is planned following FAIRR's feedback, aiming to drive Cranswick's progress and understand its approach to prioritising specific sustainability initiatives.

We will continue to focus on ensuring Cranswick's improvement in sustainability practices while seeking clarity on their prioritisation of various initiatives.

STV Group

STV Group delivers news and entertainment content across multiple platforms, including traditional broadcasting, as well as through digital formats such as the STV Player.

Management excellence and retention
Despite current difficulties, the CEO and CFO have been pivotal in STV's success. Their retention and motivation is a priority and we wanted to ensure their remuneration package was appropriate.

Engagement on executive remuneration
We had a constructive dialogue with the newly appointed remuneration committee chair who acknowledged our feedback on the unusual balance towards short-term incentives, and our preference for alternative financial metrics under the plan.

Diversity and inclusion
The company answered our questions regarding diversity and inclusion, and employee engagement metrics in the context of remuneration.

The outcome of our engagement will become evident at the 2024 AGM when the new remuneration policy is put to a shareholder vote.

Global equities

As a responsible investor, it is our fiduciary duty to protect and enhance the long-term returns of our clients through active stewardship. By incorporating material ESG considerations across our strategies today, we are better equipped to deliver long-term positive outcomes for our clients' investments.

Highlights

- **Investing in sustainable aviation:** Ongoing investment in Safran's innovative engine technology promoted more efficient, environmentally friendly air travel
- **Net zero holidays:** Backing Thor Industries' development of net zero recreational vehicle (RVs) broadened our influence into sustainable recreation and travel.

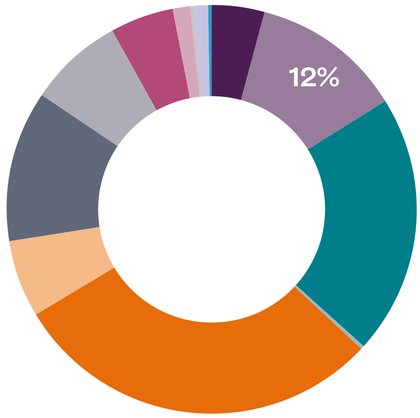
£19bn

assets under management

647

company meetings voted

Global equities



"We weave ESG factors into every step of our investment process. This approach not only strengthens risk assessment and value creation but also aligns our investments with the long-term wellbeing of society and the environment."

James Clarke
Senior Fund Manager

Strengthening investment through ESG

ESG integration can help bolster investment performance through reduced risks and enhanced returns, and deepen our commitment as responsible investors. We integrate ESG factors into our global equity investment process.

Research-led stock analysis: Shared ESG data providers and thematic research enhance our stock-specific analysis, and regular independent reviews focus on mitigating company-specific and broader societal risks. This synergy extends to our involvement in voting and engagement activities, underpinning our commitment to responsible investment.

Driving ESG insights through data and technology: Data and technology are the cornerstone of our investment strategy. Integrating a wide range of ESG data with our proprietary Life Cycle analysis underpins our investment insights and efficiency in idea generation.

Identifying value and wealth creation: In-depth analysis helps us identify wealth-creation opportunities and value the most promising company-specific prospects.

Client-centric portfolio management: Tailored implementation and monitoring reflects client needs, aligning with standards such as the EU Sustainable Finance Disclosure Regulation (SFDR) where relevant.

Wealth creation and ESG materiality

The impact of ESG factors on wealth creation is profound and complex. Our Life Cycle process and qualitative analyses bring valuable insights, particularly where quantitative ESG data may fall short. When ESG risks are significant and unaddressed by a company, they can become a factor in avoiding such companies for our client portfolios.

Valuation and ESG factors: Businesses with strong forward-looking wealth creation potential often face significant ESG risks or opportunities. We integrate these considerations into our valuation scenarios, explicitly modelling factors like carbon transition risks and potential carbon taxes into our analyses. This comprehensive approach directly influences our investment decisions.

Engagement and investment in ESG-challenged companies: We see potential in companies facing substantial ESG challenges, provided:

- the risks are acknowledged and manageable
- the company is committed to mitigating these risks
- there are significant rewards
- the overall wealth creation potential and valuation remain attractive, even in risk-laden scenarios.

Such companies often present prime opportunities for engagement, aligning with our clients' expectations of our role as responsible investors, fostering positive environmental and community outcomes.

Royal London Asset Management Global Equity team investment process

Measure 3,500 + companies	• ESG 3rd party data • SASB framework
Classify 3,500 + companies	• Risk flags • Climate – Transition + Physical • Life Cycle specific
Identity c.600 + companies	• Stock specific + Thematic • Materiality – E/S/G assessments • Wealth Creation test – Positive, Challenging, Avoid
Value c.200 + companies	• Fundamental Values – scenario analysis
Implement Portfolio	• Key ESG risks including climate • Client reporting and attribution • Bespoke solutions
Monitor Portfolio	• Stock reviews • Portfolio reviews

Global equities *continued*

Thor – Encouraging acceleration for electric vehicle opportunity

Thor Industries, a leader in North America's recreational vehicle (RV) market, offers outdoor holidaymakers a diverse brand portfolio of trailers and motorhomes. Thor is committed to reducing greenhouse gas emissions through an electrification strategy and the vision to enable net-zero holidays in nature.

Impact on environment and shareholder value

Switching to net-zero RV holidays can significantly benefit the environment as a more sustainable alternative to air travel and offer an attractive option for consumers, potentially boosting demand for Thor's products. This shift aligns with environmental goals and promises to enhance shareholder wealth.

Engagement and progress in key areas

Since owning stock in the company, we've engaged with Thor's senior management to encourage its electrification strategy and enhance the company's overall sustainability proposition:

Scope 3 emissions reduction plan: With 99.5% of Thor's emissions falling under Scope 3, we urged the company to disclose and plan for reducing these emissions. The COO shared insights on working with suppliers to assess supply chain emissions, indicating readiness to publish Scope 3 data and supply chain initiatives. Thor has since published its latest sustainability report in which it disclosed its Scope 3 emissions, as well as Science Based Targets initiative (SBTi) approved and verified Scope 1, 2 and 3 targets covering material emissions categories.

Electrification roadmap: Thor's CEO and COO recognise electrification is crucial for the company's sustainability and strategic agenda. The main challenge lies in developing sufficient charging infrastructure. We encouraged Thor to release a detailed electrification roadmap, highlighting milestones for investors to track progress.

Ongoing support and future outlook

We remain committed to supporting Thor Industries' management in its electrification journey, aiming to preserve and enhance long-term value for our clients.

Safran – Enhancing our understanding around sustainable aviation opportunity

Safran, a global leader in propulsion systems for commercial and military aircraft, plays a pivotal role in the aviation sector. With commercial air travel accounting for 2-3% of global greenhouse gases, the industry faces significant challenges in achieving net zero emissions by 2050.

Financial and environmental materiality

Excelling at sustainability is crucial for Safran to secure a large market share for its next-generation engine programme – RISE – which is vital for long-term wealth creation and reducing aviation's carbon footprint by improving fuel efficiency. Approximately 30% of decarbonisation efforts in aviation come from engine and machine improvements, with 50% from sustainable aviation fuels (SAFs), and the remainder from other measures.

Engagement insights

Commitment to sustainable solutions: Safran's investor relations team confirmed 75% of its research and development (R&D) engineers work on sustainable solutions.

Leadership in fuel-saving technology: Safran is advancing in fan technology, the most proven method for fuel efficiency.

Strong sustainability governance: Discussions with Safran's head of energy management indicated that climate scenario analysis and technology implications are integrated across various functions.

75%

of R&D engineers work on sustainable solutions

Focus on the RISE programme

A large part of our engagement focused on this next-generation aeroplane engine:

Fuel efficiency and compatibility: With a test run in 2026, the RISE engine promises a 20% improvement in fuel efficiency and 100% compatibility with SAFs, surpassing the current 50% level.

Energy efficiency as value proposition: Safran's engines, like the LEAP engine offering 15% more efficiency than other models at a comparable cost, are a vital part of its value proposition for future aviation technology.

Ongoing dialogue

We'll monitor Safran's progress and contributions to sustainable aviation, maintaining our proactive support for companies instrumental in driving positive environmental changes in challenging sectors.

Research

Sustainable Aviation Fuel

You can read our Responsible Investment team's analysis of the market trends, regulatory impacts and technological advances in sustainable aviation fuel here.

Quantitative equity solutions

Combining an evolving mix of in-house and third-party data and insight, we embed ESG considerations and lower carbon emissions into our quantitative models to make forward-thinking and nuanced investment decisions. This helps us balance the need to meet our clients' financial and risk objectives and demonstrate progress towards addressing climate change and long-term ESG issues.

Highlights

- 25.3% reduction in weighted average carbon intensity (WACI) for our regional pooled funds vs their benchmarks as at 31 December 2023
- Held an underweight position in **SolarEdge Technologies** due to governance concerns, relative to the benchmark
- Held an overweight position in **Centrica** based on positive climate engagement, relative to the benchmark.

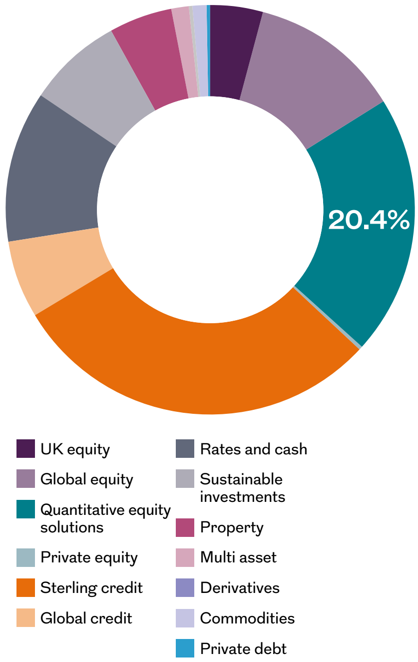
£33bn

assets under management

3,363

company meetings voted

Quantitative equity solutions



"Our tilt strategies take a more holistic approach to ESG, looking to make improvements at the aggregate fund level relative to their benchmarks from a carbon perspective whilst also incorporating stock-specific inputs on social and governance pillars."

Matt Burgess
Head of Passive and Quantitative Equities

Adapting to ESG demands

In August 2021, we transitioned all index-tracking equities managed on a market cap basis to 'tilted' strategies, acknowledging our investors' increasing interest in carbon reduction and ESG integration.

25.3%

reduction in weighted average carbon intensity (WACI) of our pooled funds vs their benchmarks as at 31 December 2023

Understanding 'tilted' strategies

Our funds' 'tilt' approach aligns with traditional index tracking funds on risk and return and meets investor needs for low-cost solutions with 'passive-like' capacity and liquidity. They provide similar returns and risks to a fund that tracks a traditional equity index. These strategies balance financial goals with ESG and carbon constraints through strategic 'tilting' — prioritising or de-emphasising the weight, or amount we hold in certain stocks, based on ESG criteria. While we reserve the right to exclude specific stocks altogether, we prefer to continue to hold them below the weight of the reference index.

Focused risk management and fund performance

Our approach means we concentrate risks on stock-specific climate and ESG issues rather than broader market themes. This targeted approach reduces our dependency on market cycles and macroeconomic influences. It allows us to achieve good financial results despite the funding and operating challenges lower carbon industries like technology and communication services faced in the first part of 2023, which created headwinds for these companies.

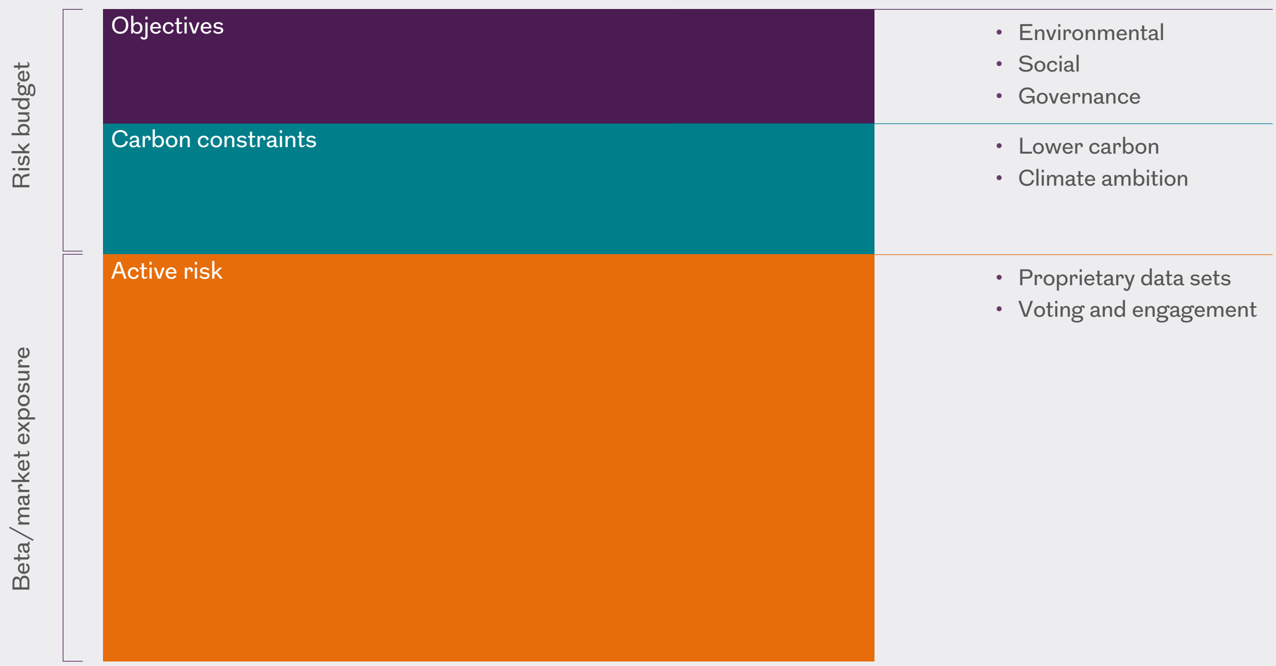
Overlaying ESG data and bespoke insights

We systematically integrate multiple data vendors and proprietary databases, working closely with our Responsible Investment team. This integration allows us to implement around 10 additional ESG-related 'tilts'. These include business involvement in things like weapons and tobacco, as well as internal insights we gather on voting and engagement from our in-house analysis and data.

For example, we will systematically underweight companies in our funds where our Responsible Investment team consistently votes *against* management on governance issues like poor remuneration practices. Not only has this approach improved our WACI metrics, it has allowed us to integrate ESG factors into our investment strategy while continuing to meet the risk and return requirements of the funds.

How are the funds 'tilted'?

Uses of risk budget in Royal London Asset Management Equity Title funds



Underweight

On 'social' – Volkswagen[1]

Our quantitative models hold a neutral view of Volkswagen because its carbon emissions are approximately the same as its sector peers. This means that we would normally hold the same amount of shares as the benchmark. However, our models are holding less of the company's shares because of human rights issues. In particular, there were allegations that companies within Volkswagen's supply chain were using forced labour. This flagged a concern by our data provider in November 2022 that Volkswagen may be violating the UN Global Compact 'Principle 4 – Businesses should uphold the elimination of all forms of forced and compulsory labour'. This triggered our models to underweight Volkswagen relative to the benchmark position. Volkswagen is the only European automotive company that is flagged by our data provider for potential violation of this principle.

On 'governance' – SolarEdge Technologies[1]

SolarEdge is a global leader in smart and clean energy technology with a low carbon intensity relative to its peers. According to our models, we would hold SolarEdge overweight. In other words, we would normally own more shares than the benchmark. Despite this, we hold SolarEdge underweight in our US Tilt strategy to reinforce our consistent votes *against* its say on pay proposals in the last three years. In practice, we would prefer the long-term incentive plan to be more performance-based, linking executive rewards to the company's performance. We have acknowledged the increased proportion of performance-based awards in recent years, but we still have concerns over the short performance period of long-term awards. We also note that it does not currently have a maximum limit to awards under the bonus plan.

1. Investment position valid as of 31 December 2023.

Overweight

On 'climate engagement' – Centrica plc[1]

Centrica is an international energy services and solutions company that owns British Gas. With a carbon intensity below the sector average, but not as low as some of its peers, we typically wouldn't hold more of the company's shares than our benchmark on carbon emissions alone. Centrica is part of our Net Zero Engagement Programme. It aims to be net zero by 2045 for its operations and to support its 10 million customers to be net zero by 2050. The company's climate transition plan focuses on affordability and quality jobs for a just transition. Using our Climate Transition Assessment Framework and a 2022 baseline, we reconfirmed Centrica as 'aligning towards a net zero pathway' in 2023. Although our assessment shows improved alignment of its capital expenditure with net zero objectives, we seek more detailed disclosures on how each business area contributes to emission-reduction targets, especially in decarbonising heat and enhancing home energy efficiency. Centrica's relatively low carbon intensity and ambitious targets have encouraged us to hold a larger share of the company than our benchmark would prescribe. At the same time, we continue to engage on improvements to other aspects of its strategy.

On 'governance' – RS Group[1]

RS Group provides product and service solutions for designers, builders and maintainers of industrial equipment and operations, such as supplying essential electronic components for automated manufacturing systems. We have consistently voted *for* RS Group's Remuneration Report, with few concerns about its pay decisions. We have acknowledged the rationale it provided us on executive salary increases and director salaries generally, with few issues. RS Group has lower carbon emissions than its peers, which means we would still typically hold this name closer to benchmark weight. However, due to our positive view of remuneration practices, our models are buying more shares than the benchmark.

Private equity

We partner with UK and European private equity (PE) managers that prioritise ESG integration within their investment frameworks. This approach supports our commitment to responsible investing and aligns with industry standards and best practices.

Highlights

- **Commitment to carbon action:** Our review of Epiris 2022 ESG report revealed encouraging progress on climate action
- **ESG leadership:** Appointment of Cubera's Chief Sustainability Officer in 2023 has strengthened its ESG focus
- **Promising progress:** A closer look at portfolio companies in PCS and Rivean funds demonstrates ESG integration in their investment choices.

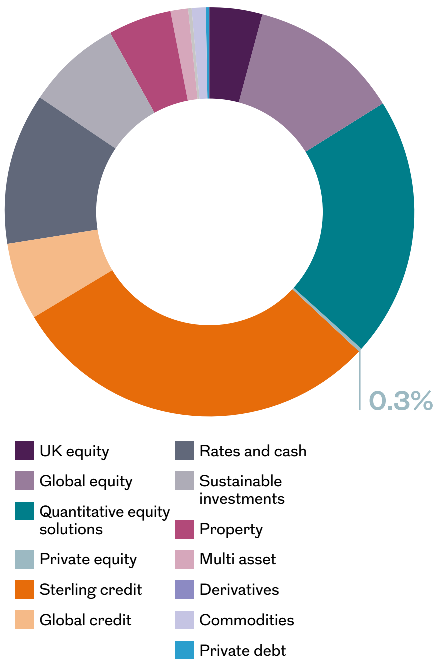
£540m

assets under management

20

private equity partners we are currently working with

Private equity



"We pride ourselves on partnering with PE managers who work hard on behalf of us and our clients to ensure the companies in their portfolios think about the real-world impact of their portfolio decisions. We ensure our PE partners consider ESG factors for every portfolio company and their broader strategy."

Richard Caston
Head of Private Equity

Long-term, trusted PE partners

We have been investing in PE for over 20 years, actively partnering with the same PE partners for an average of eight years.

Manager selection and due diligence: We invest in PE funds that are typically investing in companies with an enterprise value of between £25m and £250m and profits of £2.5m to £30m. Our selection process prioritises funds with proven track records and robust ESG policies.

Balancing investment attributes: While our funds are not exclusively ESG-focused, they integrate ESG considerations as part of a broader investment decision-making framework, ensuring a balanced approach that acknowledges the wide range of investment attributes.

Roles and responsibilities: Our role is to select the best partner with the strongest ESG records to deploy our capital. Each PE fund generally invests in around 10-15 businesses, although there will be variations between funds. Through their controlling stake, we expect our PE partners to integrate ESG factors into how they manage these companies.

ESG trends in PE

Service-sector focus: The PE market tends to favour service-oriented sectors, like IT, healthcare and financial services, where there is a predominance of attractive businesses that fit our fund size ranges compared to other sectors.

Regional opportunities: Tapping into this trend, we select funds that invest within the UK and European regions, emphasising ESG integration in line with evolving industry standards and the specific challenges and opportunities in these sectors.

B Corp certification: This refers to businesses that meet verifiably high standards of social and environmental performance, accountability, and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials. Although relatively new, a small (and growing) number of portfolio companies within our private equity funds have become 'Certified B Corp' businesses.

Working through our PE partners

Fund-level ESG policies: We review ESG policies for each fund we invest in, guided by the expectation that our PE partners influence their portfolio companies positively, promoting responsible practices and ensuring compliance with our standards.

Ongoing engagement: Our PE partners continue to refine their ESG approaches, publishing regular and comprehensive reviews and developing due diligence during initial investment evaluations, often supported by third-party specialist advisers.

Adapting to challenges: Anticipating increased scrutiny in an economically challenging 2024, we expect our PE funds to continue prioritising ESG matters, reflecting a long-term value-driven investment ethos that does not succumb to short-term profit pressures. This forward-thinking approach aligns with our responsible investment values and ensures we are ready to meet market demands.

Influence of industry bodies: Representing private equity in the UK, the British Private Equity & Venture Capital Association (BVCA) is pivotal in driving ESG forward, encouraging detailed reporting and responsible investment practices among PE firms.

Our 2023 PE commitments

In 2023, we invested in UN Principles for Responsible Investment (PRI) signatory funds, including:

- Cubera Private Equity – targeting secondary market opportunities in the Nordic region
- Rivean Capital – focusing on the mid-market in Europe's German-speaking 'DACH' region
- Epiris – specialising in UK-based companies with 'special situations' such as distress or a need for restructuring that offers good valuations
- Pollen Street Capital – investing in the financial services sector across Europe.

Continuous monitoring and dialogue

We monitor the progress of all our PE investments, and indirectly, their portfolio companies. We do this through in-person and documentation reviews of ESG and fund performance, ensuring alignment with our commitment to responsible investment.

Cubera Private Equity

Our investment with Cubera Private Equity follows our support for the firm, reinforcing our ongoing trust in its ESG integration, transparency, and continuous improvement.

Compliance and transparency

Our new investment aligns with SFDR Article 8, demonstrating commitment to transparent ESG promotion and sustainable investment reporting.

Strategic ESG development

Cubera focuses on enhancing ESG integration across all its funds, improving data quality and accessibility, and collaborating with stakeholders, including Royal London, to make sustainability more mainstream in private equity.

The appointment of its Chief Sustainability Officer in 2022 reinforces Cubera's prioritisation of ESG in investment decision making.

Continuous improvement

Cubera sometimes acquires companies from other PE managers as a 'secondary buyout'. While its primary fund commitments showcase stringent ESG thresholds, efforts are underway to elevate its secondaries fund activities to match. The Nordic market's relative maturity on ESG and sustainability issues and Cubera's focus on this region give us confidence in its ability to do this.

Rivean Capital

Our recent investment with Rivean Capital builds on our prior investments with the firm. It mobilises Rivean's ESG framework for the mid-market and DACH region and reflects its commitment to responsible growth and regulatory compliance.

Appointing a head of ESG

Rivean's detailed annual reviews draw on external support to analyse and engage all portfolio companies on their ESG progress. The appointment of a head of ESG in 2022 enhanced change to its strategy, reinforcing ESG diligence and performance across all aspects of its portfolio and operations.

Conscientious portfolio selection

A sample of Rivean's investee companies reflect its focus on ESG factors:

- 2021: Global IT transport solutions supplier Init promotes low-impact transport through flexible remote work available for 100% of its employees.
- 2022: Esdec creates innovative solar panel roofing solutions, contributing to renewable energy expansion.
- 2023: Green Mobility Holdings' low-impact corporate 'ride to work' solutions reflect Rivean's effort to engage environmentally relevant businesses.

Regulatory adherence and reporting

Our investment is categorised as SFDR Article 8 and, in 2022, began reporting on the SFDR's principal adverse impact (PAI) indicators.

Epiris

Our latest commitment to Epiris continues our relationship with the UK investor, leveraging its longstanding expertise in special situations private equity.

Maximising ESG impact

Epiris, formerly known as the Electra Investment Trust, targets unique opportunities to investment in a diverse range of sectors. It seeks long-term value for stakeholders, taking majority stakes in companies that may be in distress or require restructuring that allows for significant influence, strengthening its ESG strategy.

Integrated ESG approach

ESG pillars: Epiris is committed to climate change, workforce diversity, sustainable resource use and acting with integrity. It enforces these pillars through key performance indicators, guiding portfolio companies towards ESG excellence.

Investment process: From pre-deal due diligence and development of bespoke ESG plans post-acquisition, to showcasing ESG impact at the exit, Epiris embeds ESG throughout its investment process.

Focus on climate action: In our review of Epiris' 2022 ESG Report, we were particularly encouraged by the Epiris team's focus on climate change and efforts to reduce its carbon footprint.

Pollen Street Capital

Our investment with Pollen Street Capital (PSC) continues our support of the company's strategic approach to private equity in the financial services sector.

Governance and social focus

Originating from RBS about 15 years ago, PSC upholds a robust corporate governance structure. Our review of its ESG practices affirmed its particular focus on social impact and governance.

Promoting diversity and inclusion

PSC promotes gender diversity across its executive leadership (28% women) and board composition (19% women). PSC also prioritises financial accessibility, ensuring digitalisation does not impede customer access to products.

Transparent reporting

Since 2019, PSC's annual ESG reports have articulated its climate and diversity, equity and inclusion strategies, operational governance, and the efficacy of its proprietary scoring framework, alongside the real-world impact of its efforts.

ESG in practice

PSC seeks to align a small number of its investments with 'megatrends' such as the green transition and financial inclusivity. Examples from previous PSC funds that we have invested in include:

- Tandem: A forward-thinking challenger bank specialising in green finance, offering loans for eco-friendly home upgrades such as heat pumps.
- Ding: A technological solution promoting digital inclusion that allows someone to top up a friend or family member's mobile phone credit or data package in more than 150 countries.

Fixed income

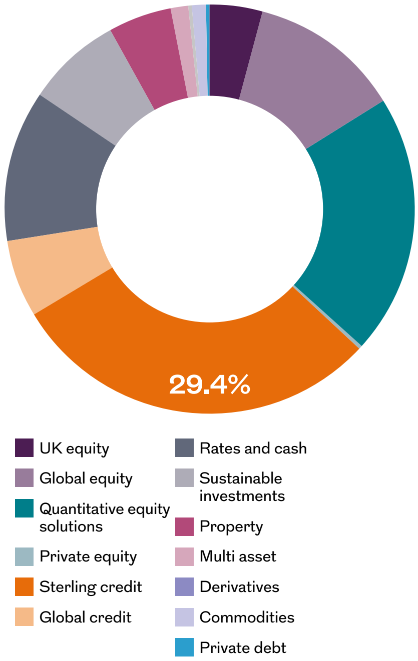
Sterling credit

Integrating ESG principles into our credit research framework goes beyond navigating risk. It is about seizing long-term opportunities and driving change in sectors where we can make a difference. We identify risks collaboratively and make decisions based on solid research, engaging directly with bond issuers to shape the future.

Highlights

- **New just transition research:** We published our report 'Net zero social housing: a just transition through a perfect storm' in partnership with Friends Provident Foundation (FPF)
- **Built-in protections:** A high proportion of credit portfolios benefit from preemptive controls, protecting our investment and magnifying our opportunities to engage effectively
- **Supportive stewardship:** Active involvement in sectors where we can have more impact, such as social housing utilities and 'rolling stock' (trains)
- **Primary research focus:** We leverage our in-house ESG capabilities to tailor our research to the way we lend, and address gaps in third-party data.

Sterling credit



£48bn

assets under management

8

companies engaged as part of our just transition social housing programme

"We share a common ethos and complementary experience with our responsible investment colleagues. Because of that, risk identification is never territorial and is, in fact, enhanced through collaboration."

Paola Binns
Head of Sterling Credit

Ground-up, bond-specific approach

We have rooted ESG integration into our role as long-term custodians of client funds, emphasising considered lending rather than short-term bond trading. Adopting a granular, bond-specific approach, we assess all risks that could influence the ongoing viability of cash flows and asset life. This scrutiny, reflected in our credit research framework, is not only about who we lend to but also how we lend and where we lend in the capital structure.

A collaborative credit research framework

At the forefront of our credit research framework is 'risk identification'. Our Credit and Responsible Investment teams actively collaborate, uniting under a shared ethos but bringing complementary experience. There are no silos when it comes to identifying risk. From pinpointing risks, our credit specialists mitigate and evaluate them. While a single risk rarely dictates an investment decision, sharper risk identification refines our lending decisions, providing nuanced context for bond pricing, structure and portfolio positioning.

Informed decision making

Our Credit team evaluates ESG factors before purchasing securities, and this vigilance continues post-acquisition through regular reviews and direct engagement. We avoid securities with significant, unmitigated ESG risks. Being more informed does not just enhance cash flow safety, it strengthens the integrity of our lending decisions.

Maximising influence and impact through engagement

Our collaborative approach to research lays a robust foundation for purposeful engagement with our issuers. Embracing the control constraints of our position, especially when compared to equity holders, sharpens our engagement strategy. Our leverage often emerges during the initial structuring and pricing of new bond issues. Having such a high portion of our credit portfolios fortified with preemptive controls via robust covenants and security amplifies our engagement opportunities. Engaging with issuers as creditors rather than owners, we focus on sectors dependent on debt, ensuring our engagements have high impact and are truly additive to portfolio decision making.

Shaftesbury plc: investing in London's West End

Effective governance is vital in navigating financial market complexities. We have significant exposure to Shaftesbury plc, through property bonds secured on buildings in London's West End.

Potential volatility from merger: In 2022 Shaftesbury plc announced its merger with its fellow commercial property landlord, Capital & Counties plc. Mergers and acquisitions (M&A) can often create volatility for unsecured bondholders, including the potential threat of additional leverage and subordination.

Strategic protections: Although the Shaftesbury bonds were unrated, they benefitted from security, comprehensive covenants on asset and income cover, and detailed 'change of control' provisions. These preemptive controls provided us with significant rights as creditors, mitigating the typical risks associated with M&As as well as general volatility in commercial property markets.

Opportunity from protections: The merger ultimately led to the formation of Shaftesbury Capital plc in Q1 2023. Due to our bond terms, we could require the company to repurchase our bonds at a price above market levels. This scenario exemplifies the importance of thorough bond protection mechanisms and good initial lending decisions, and validates our focus on in-depth credit research. We received the proceeds from the bond's redemption in Q2 2023.

Sterling credit *continued*

Social housing sector

The past year has proven difficult for the social housing sector. Against a backdrop of rent caps, cost pressures, and increasing spending commitments in asset condition and decarbonisation, the already-strained finances of housing associations are being put to the test. While the overarching attractions for creditors remain true, the challenging environment makes it incumbent on us as long-term lenders to look beyond broad social credentials and consider the specifics of each association. In this context, our bottom-up and security-specific approach remains vitally important and we are continuing to interrogate both the current balance sheets and the transition plans of all our borrowers.

Research in action

During the year, the sector has also been the subject of negative headlines on damp and mould and the condition of social housing nationally, with a number of specific cases outlined. These issues, while relatively isolated, reflect increasing economic, environmental and social 'trade-offs' in a sector grappling with long-term funding constraints, rising operational costs, and growing demands for investments in asset condition and decarbonisation.

Proactive deep dive: More generally, we responded to these issues with research and engagement, helping us to understand housing associations' priorities, good practice, and key challenges. Through publishing our 'Just Transition' social housing report in 2023, we were also able to make recommendations for policy makers, fellow investors and associations.

Findings from research: From this report and previous sector engagement on 'damp and mould', it became clearer that increased investment without significant grant funding will likely reduce the sector's ability to deliver much-needed additional social housing.

Informed sector decisions: Framed by our research and enhanced understanding of the sector challenges, we reduced our exposure to associations where credit quality was most sensitive to the current challenges, and continue to refine our ongoing framework for sector engagement.

Housing 21

Our in-depth review of Housing 21, a major provider of affordable housing for the elderly, reflects our active approach:

Progress beyond expectations: During a Q3 update, we learned that 99% of Housing 21's housing portfolio has an Energy Performance Certificate (EPC) rating of C or above, with most new homes achieving EPC B. Its flagship project, England's largest net zero retirement living complex in Doncaster, is constructed using modular methods which demonstrates its commitment to environmental standards.

Long-term lending implications: Housing 21's proactive approach, particularly in line with the Future Homes Standard, targeting 75-80% lower carbon emissions in new homes by 2025 through enhanced heating and insulation, positively impacts its long-term debt servicing capacity and collateral value.

Swan Housing

Development delays, cost overruns and a failed merger negatively impacted Swan Housing's ability to deliver on its housing development commitments, leading to the issuer's bonds being downgraded to sub-investment grade by S&P. This caused significant volatility in the bond price, forcing some investors to sell into unreceptive markets.

Steadfast strategy: Despite this rating and price volatility we increased our investment to Swan. Our secured lending position, the relatively small size of Swan within the sector, and a clear mandate from the regulator to maintain lender confidence in the sector underpinned our expectation of a positive resolution for Swan's creditors.

Successful acquisition: When the much larger Sanctuary Housing acquired Swan in February 2023, this resulted in an immediate upgrade of Swan's bonds to investment grade. As active managers, we were able to preserve and enhance client value, whilst helping to support a favourable outcome for Swan's tenants and other stakeholders.

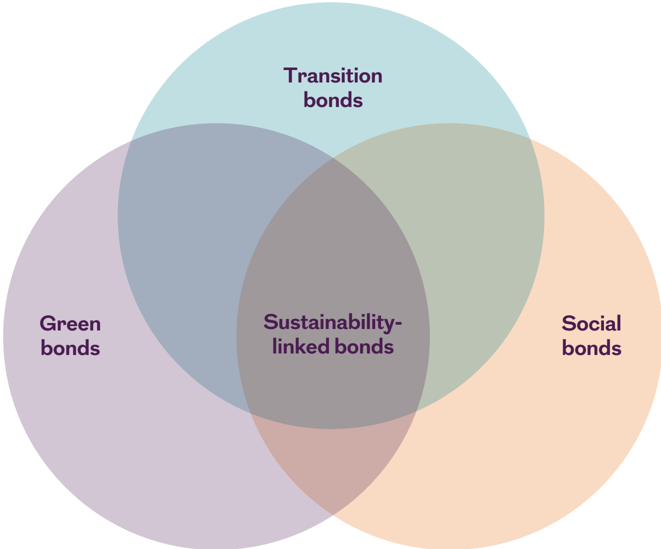
Spotlight: Labelled bonds

Green bonds – proceeds linked to environmental initiatives or green targets, i.e. climate bonds

Social bonds – provide funding for social impact initiatives, i.e. affordable housing bonds

Transition bonds – aim to support improvements in social or environmental outcomes

Sustainability-linked bonds – higher interest rates must be paid if sustainability targets are not met



Labelled bonds, encompassing green, social, sustainable and even transition bonds, are growing in popularity.

The growth in these assets is fuelled by a desire to help fund positive social and environmental outcomes, as well as a demand from clients to invest in a more sustainable way. We support the goals of labelled bonds, but we are also careful not to take them at face value. We look behind the labels to understand the true sustainability value of our investment.

We invest only in bonds that meet both our ESG and financial expectations.

Opportunities beyond labels

Labelled bonds are typically unsecured and can free up capital for companies to invest in less sustainable activities. Where we can, we prefer to invest directly in affordable housing or environmental infrastructure. This ensures we have more certainty over what we are financing.

Balancing credibility and practicality

We apply our investment process when evaluating these bonds, which emphasises risk identification and strong bondholder protections. Our approach ensures we provide our clients with exposures to high-quality sustainable and ESG assets without overpaying.

Weir Group plc: Sustainability-linked bond

Weir Group helps customers improve productivity and lower environmental impact. In 2023, the company issued a sustainability-linked bond whereby the company must pay additional interest if it fails to meet Scope 1 and 2 emissions reduction targets.

Stability in a volatile industry

Weir builds equipment for extreme environments which offers stability against volatile revenue streams impacted by commodity markets. Weir's reduced sensitivity to the commodity cycle dampens cash flow variability over the bond's life.

Innovative solutions for mining

Weir's innovation in sustainable mining solutions was critical to our assessment, notably its high-pressure grinding product that reduces direct energy consumption by 40%. It is also actively developing solutions that reduce water use within the mining sector.

Investment decision

Although the bond's sustainability-linked targets were relatively unambitious compared to the progress already achieved on Scope 1 and 2 emissions, we recognise the potential benefits associated with Weir's product range. Therefore, despite the more overt yet cosmetic benefit of a bond label, our evaluation of the underlying credentials and performance of the business provided comfort that the bond offered sufficient spread compensation, as well as appropriate diversification for funds.

Suez Group: Green bond

Green bond

Suez Group, a French water and waste utility, marked its entry into the sterling market with a green bond. Our team conducted extensive research on Suez's water and waste operations.

Water sector dynamics in France

Two major players, Suez and Veolia, lead France's water sector, competing for service contracts with local municipalities. These 10-year contracts involve directly managing water and wastewater services for around 2,000 French municipalities. Without a national regulator, the French model relies on municipalities to oversee performance through contract-embedded KPIs.

Understanding carbon intensity

- **Operational impact:** Suez's waste-to-energy operations contribute 40% to its total Scope 1 and 2 emissions
- **Carbon capture technology:** Suez has plans to invest in carbon capture technology.
- **Energy from waste:** Despite high impacts, we believe energy-from-waste is preferable to landfill, a view which aligns with the European Union waste hierarchy.

Investment decision

We invested in Suez's green bond because of the company's relatively strong ESG profile, good geographic diversification and reasonable cash flow. Although Suez faces challenges in reducing the carbon footprint of its waste-to-energy operations, our concerns are balanced by low political and operational risks in France.

Global credit

A comprehensive ESG scoring system underpins our integrated approach. We prioritise analysis of good governance and climate considerations, alongside engagement with issuers. This enhances our credit research and supports better investment decisions.

Highlights

- **Enhanced ESG scoring:** Created an enhanced, on-desk ESGC (C for Climate) scoring system
- **Q-Park improves disclosure:** We upgraded our ESGC score as a result
- **GFL Environmental:** Improves its approach to climate transition risk and reporting, allowing us to continue to invest.

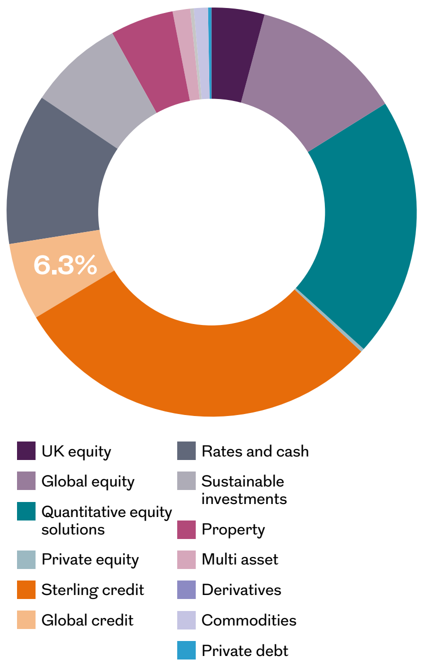
£10bn

assets under management

2 years

for companies to address our concerns

Global credit



"We utilise ESG plus Climate factors to derive our internal credit ratings. This allows us to measure, monitor and manage internal risks as well as externalities."

Azhar Hussain
Head of Global Credit

Enhancing our approach

Concentrating on global high yield, multi asset, and emerging market corporate credit, our Global Credit team integrates ESG consideration into the analysis and selection of bonds and loans for our funds. Many of the private issuers in our market offer limited ESG disclosures, gaps we address through enhanced, on-desk ESG analysis that enriches our credit research. In 2023, we further embedded ESG into our investment strategies through our detailed scoring system and ESGC (C for Climate) philosophy.

Our ESGC philosophy

Good governance practices: We ensure investments align with good governance principles. Our internal analysis focuses on board structure, executive pay, audit policies, stakeholder engagement and controversies. We aim to reduce credit losses by selecting issuers that meet minimum governance requirements.

Exclusion and ESG criteria: We exclude issuers with direct and material exposure to controversial weapons, tobacco and thermal coal production. Additionally, every security undergoes scoring against ESGC criteria, allowing us to identify and exclude the companies whose creditworthiness is materially impacted by ESG risks.

Climate opportunities and risks: Our scoring evaluates climate exposure, ability to transition and willingness to change. We invest in companies with favourable climate policies, good fundamentals such as pre-tax profits and free cash flow, and disclosure and management of emissions.

Engagement: Avoiding issuers underperforming on ESG criteria denies them the opportunity for positive change and can lead to missed investment opportunities. For issuers with lower scores in our ESGC assessment model, but where we don't believe the score impacts creditworthiness, we choose engagement over divestment, to encourage issuers to enhance their ESGC profiles and improve their disclosure and corporate behaviour.

Investment decision: We give companies two years to address our concerns, confident that this is sufficient time for them to achieve meaningful change. If we fail to see progress, we will divest our position from our Global Credit strategies.

Q-Park

Understanding ESGC factors

Q-Park, a leading European parking infrastructure owner and operator, manages over 677,000 parking spaces across Western Europe. The company, known for its off-street parking facilities, has diversified into sustainable mobility services, including electric vehicle charging and bicycle parking. In October 2020, we initiated discussions with Q-Park, focusing on its environmental operations and social capital management, which provided a foundation for our ESGC analysis.

Analysis and reassessment

Following the release of Q-Park's 2021 Corporate Social Responsibility (CSR) Report, we noted improvements in disclosures but still found gaps in environmental and social reporting. These gaps led to a one-notch downgrade in our internal credit rating, putting our investment in the company at risk of divestment from our Global Credit strategies unless Q-Park addressed these issues within a specific timeframe.

Upgraded ESGC score

In February 2023, we revisited these topics with Q-Park's management, stressing the need for better environmental impact and social policy reporting. The 2022 CSR Report showed progress, and we upgraded our ESGC scoring. This change removed the negative impact on our internal rating, stabilising our investment in Q-Park in the near term.

Ongoing dialogue

We followed-up with management in November 2023, highlighting areas for further improvements. We would like to see Q-Park set and track relevant emissions targets, define its climate transition policy, embed targets in its energy usage reduction policy, and measure its water consumption and waste production. We will continue to monitor Q-Park's progress.

GFL Environmental

Identifying ESGC gaps

GFL Environmental (GFL) is the only major diversified environmental services company in North America offering services in solid waste management, liquid waste management and soil remediation. Headquartered in Ontario, Canada, with operations across North America, GFL is one of the leading players in the rapidly consolidating waste services sector. Its scale peers are all investment grade rated, so GFL offers high yield investors a rare opportunity to access what in recent years has become a more consolidated sector, with more rational actors, leading to more defensive industry characteristics – key positives for long-term credit investors. Our initial analysis in 2022 revealed significant gaps in its E,S and C reporting, leading to a two-notch downgrade in our internal rating. This downgrade put GFL at risk of divestment if it did not address these gaps.

Strengthening climate accountability

In June 2022, we proactively engaged with GFL's senior executives to address climate transition risks. We felt that GFL needed to not only measure but also act to reduce its climate impact. The GFL management team acknowledged its progress in measurement and disclosure and committed to making improvements in the near future.

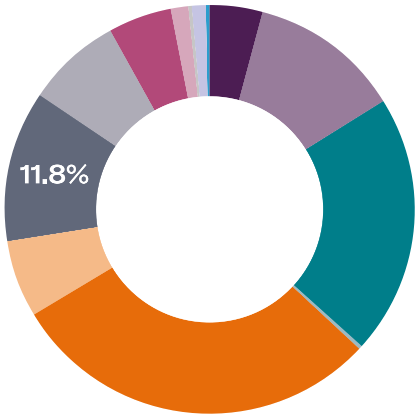
Follow-up and reassessment

Our subsequent engagement in February 2023 sought further clarity on GFL's environmental impact, social policies and supply-chain sustainability. Following this and the release of an updated sustainability report, we re-evaluated the company's performance. The improved disclosure standards led to GFL meeting our expectations across all factors. This means the company's ESGC performance no longer has a negative impact on our internal credit rating, and we continue to hold the bonds in our portfolio.

Rates and cash

Prioritising companies with strong ESG credentials, our investment strategy enhances liquidity during times of stress and aims to help clients achieve consistent returns. Effective ESG risk management and the construction of diversified portfolios reflect our commitment to responsible investment.

Rates and cash



Highlights

- **ESG stress testing:** We do monthly 'worst-case scenario' stress testing on our portfolios to assess the impact of potential ESG downgrades on performance and risk
- **First Abu Dhabi Bank:** Successful engagement to address governance concerns
- **Qatar National Bank:** Engagement on board diversity and pay disclosure.

£19bn

assets under management

4-pillar

ESG framework

"We consider the ESG rating alongside maturity weighted score for each term trade, then how and whether this trade fits within the portfolio's objectives."

Craig Inches
Head of Rates and Cash

Liquidity solutions

Catering to a diverse range of clients, our liquidity and short-term fixed income solutions allow investors to customise their liquidity needs. Our clients get access to thorough credit research, robust risk management, active portfolio construction and integrated ESG considerations.

Rising importance of ESG: Treasury investors are navigating a complex landscape, where higher interest rates offer the potential for increased returns, yet global economic uncertainties and geopolitical issues present a spectrum of risks. We believe ESG factors can help reduce volatility, improve liquidity and capital preservation, and help with diversification.

Key challenges: Poor ESG practices can impact a company's reputation, leading investors to question the viability of investing. Incorporating ESG into liquidity or short-duration funds does, however, present challenges. In short-term lending, such as overnight deposits, not all ESG issues are material. For instance, the immediate risk of climate change over short durations is minimal.

Ongoing relationships with issuers: While longer-term issues like climate may not be material to individual short-term investments, these issues become more relevant when we consider that we lend to the banks repeatedly on an ongoing basis.

Focus on corporate governance: Good governance acts as a proxy for evaluating management quality, risk controls and overall assurance of safeguarding our clients' capital. This is why we prioritise corporate governance in our assessment.

Investment implications: History has shown that poor ESG credentials may cause significant losses during stressful periods and attract a greater risk of downgrade. This risk is increasingly relevant as rating agencies integrate governance into their credit assessments.

Stress testing: We perform monthly 'worst-case scenario' stress testing on our portfolios to assess the impact of potential ESG downgrades on performance and risk. Stress testing allows us to manage risk better and rebalance our portfolio strategies if our largest holdings are downgraded from an ESG perspective.

Government bonds

Influence: Although ESG integration in the sovereign bond market is still developing, we engage with key entities like the Bank of England and the UK's Debt Management Office, contributing to discussions on green issuance programmes and providing feedback on report structures. We also meet occasionally with Debt Management Offices globally and indirectly engage with debt issuers through investment banks on potential green bond issues.

Climate risk in portfolio construction: Our ongoing collaboration with the Responsible Investment team enhances our understanding and management of climate-related exposure. Advanced metrics and tools help us evaluate factors such as country-level fossil fuel exports, energy consumption per capita and an environmental vulnerability index.

Rates and cash *continued*

Our four-pillar ESG framework

Qualitative and quantitative assessments of every issuer allow us to construct a balanced portfolio with an understanding of each company's ESG risks:

1 Exclusions policy

We exclude issuers with significant involvement in armaments, tobacco or fossil fuels.

2 Quantitative framework

Incorporating third-party ESG data alongside internal analysis, we assess and manage ESG risks at the company level and aggregated portfolio level, limiting exposure to lower-rated ESG issuers.

3 Qualitative assessment:

Collaborating with our Responsible Investment team, we add depth to our quantitative analysis through in-depth credit assessments and discussions with credit analysts.

4 Ongoing engagement

We work with companies that have weaker ESG credentials, aiming to drive improvements across themes such as climate, culture and cyber security. Companies with poor ESG performance that we view as material can later be included in our funds where we see they are making meaningful improvements to their practices.

First Abu Dhabi Bank

Engaging on governance

Our Responsible Investment team's governance review of First Abu Dhabi Bank (FAB) highlighted significant concerns regarding board independence, oversight and diversity. A critical issue was the all-male composition of the board, coupled with ambiguity around the roles of non-executive directors. These factors contributed to FAB's low governance score.

Communicating concerns and monitoring progress

In response, we communicated our concerns to FAB through our broker, emphasising that the bank's inadequate governance scores were a barrier to our investment. FAB's senior management acknowledged these issues and committed to making necessary improvements. Our team closely monitored FAB's progress in addressing these governance challenges.

Positive outcomes

We observed a notable enhancement in FAB's governance practices over time, including the appointment of a female non-executive director to the board. The bank's efforts to address the issues we identified led to an improved governance score. This aligns FAB more closely with our investment criteria, allowing us to include the bank within our funds.

Qatar National Bank

Governance challenges

Qatar National Bank (QNB), established in 1964 as Qatar's first domestically-owned commercial bank, faces governance challenges impacting its third-party ESG rating. Key issues include board effectiveness, executive pay disclosures and its ownership structure, with the Qatar Investment Authority holding a 50% stake.

Establishing an open dialogue

The QNB Treasury team approached our Rates and Cash team to establish a business relationship. We raised concerns about the bank's governance score. In meetings with QNB's Sustainability team, we discussed issues affecting this score, such as board diversity, pay disclosure and ownership concerns. QNB acknowledged these issues, detailing plans to address gender diversity, but noted limitations in altering ownership structure and remuneration disclosure. We also discussed third-party rating agencies, where information gaps or process biases can impact scoring.

Ongoing monitoring

The meeting provided valuable insights into QNB's focus areas. While QNB recognises the issues, the timeline for addressing these remains uncertain. We do not currently invest in QNB however we plan to follow up, to monitor progress and continue advocating for improvements and transparency.

Sustainable investing

Sustainable investing

We champion innovation and social progress by embracing a future-focused approach that supports companies that make the world cleaner, healthier, safer and more inclusive. Navigating challenging markets, we are optimistic about the ability of sustainable companies to outperform and deliver strong returns over the long term.

Highlights

- **Supporting sustainable themes:** We invest across a spectrum of 13 sustainability themes
- **Schneider Electric's impact:** Over 75% of product sales from eco-friendly Green Premium™ label, reflecting alignment with sustainable investment
- **E.ON net zero alignment:** Transitioning focus to electricity and gas networks, supporting Europe's move towards a decarbonised future.

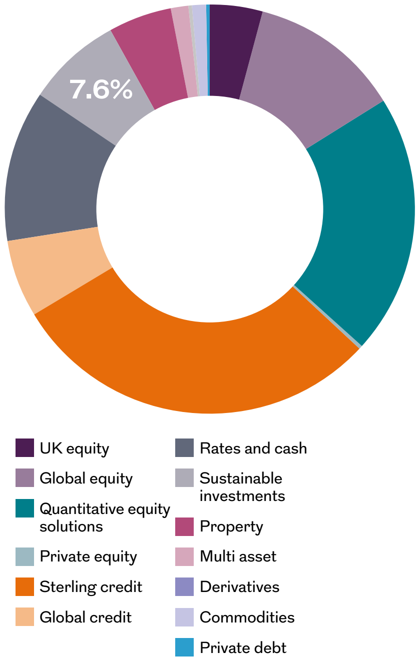
£12bn

assets under management

115

issuers screened by our analysts for inclusion or exclusion from our sustainable strategies in 2023

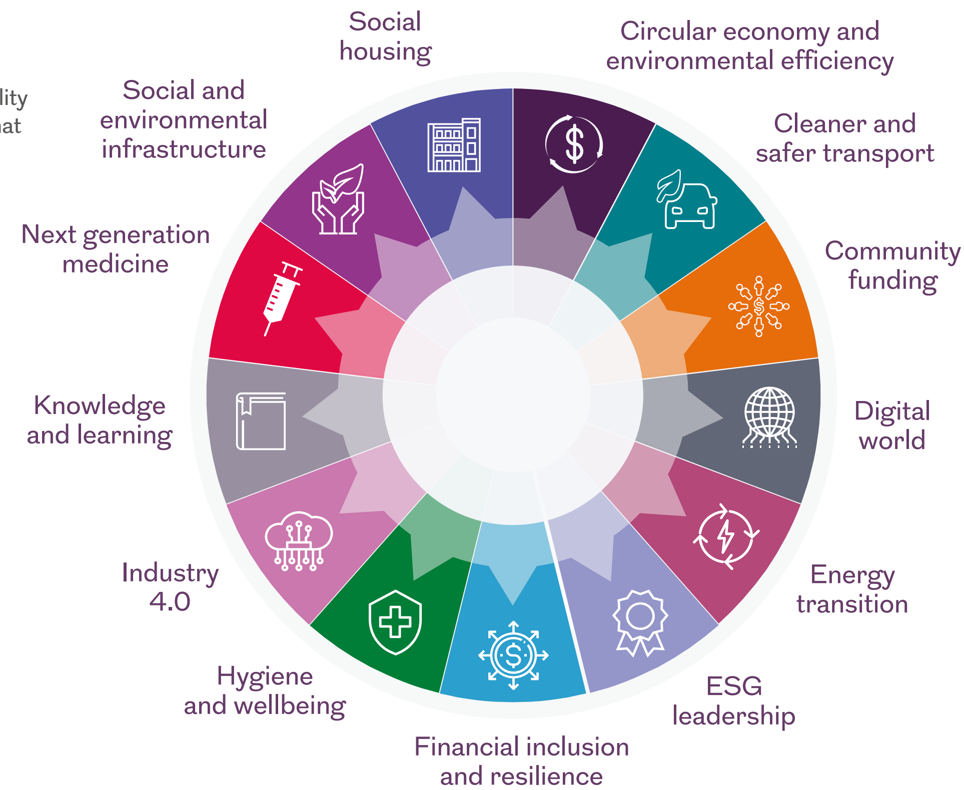
Sustainable investments



Our sustainable themes

Better outcomes for a better future

Our current investment themes are represented below. These are the outcome of our bottom-up sustainability research, which selects companies that are helping make the world cleaner, healthier, safer and more inclusive.



The innovation boom

The long-term trend towards sustainability has accelerated in recent years. Energy security and climate change concerns are increasing the demand for renewable energy despite the strong performance of oil. Developments in artificial intelligence drive significant advances in technology. Healthcare innovates at pace and in line with advances in medical treatments and our understanding of the immune system and genetics. More investment in physical infrastructure backed by policies like the US Inflation Reduction Act and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act fuels the shift towards electrification and onshoring, contributing to a lower carbon economy. These trends enhance both the trajectory and the appeal of sustainable investing.

Actively supporting a sustainable future

As owners and managers of capital, we recognise our opportunity to influence social and environmental transformation. Emphasising ESG leadership, we focus on how companies operate and their products and services, actively working with them to improve. Investing in companies addressing global challenges and positively contributing to society, we aim to achieve more resilient growth, lower operational volatility, and great long-term investment performance protected by strong ESG risk management.

Investment approach

Sustainable analysis

Products and services
Cleaner, healthier, more inclusive society

ESG leadership
Encouraging good corporate behaviour

Financial – Equity

Value creation
Returns ahead of cost of capital

Valuation
Paying a fair price

Financial – Fixed income

Protection
Security, conveants and structure to protect bondholders

Diversification
Reduce stock-specific risk

Consistency across asset classes

All our sustainable equity and fixed income funds follow a consistent, sustainable investing approach. Our investment process, enriched with sustainability analysis, uncovers insights often overlooked by others.

- **Sustainable screen:** Apply UN Global Compact principles and scrutiny for sectors with negative ESG impacts
- **Bottom-up investment analysis:** Holistically evaluate companies' sustainability features, ESG management and financial performance
- **Products and services:** Focus on what companies do and how they do it, looking at the products and services a company provides to make sure it meets our sustainability criteria.
- **Lower carbon:** Select high-quality investments in low-carbon leaders, which means our portfolios typically have lower carbon footprints.
- **External advisory committee:** Involve experts across charities, corporate governance, academia and sustainable investment to help us meet our sustainability objectives and client expectations on an ongoing basis.

An evolving approach to sustainable themes

Our investment themes emerge from a bottom-up stock and bond selection process, always aligning with stringent sustainable and financial criteria.
We prioritise adaptability and relevance, dynamically adjusting our focus to evolving social and economic trends, and ensuring our investments remain pertinent and positioned for solid returns.

Sustainable equities

Optimism in the face of complexity

Despite challenging economic markets, high interest rates and high inflation, the companies we invest in are optimistic about the future. The macro outlook may make identifying impactful ESG investments seem complex, but the risk is that investors who overstate negative trends in their investment choices could miss out on opportunities to use their capital to make a difference. In a few years, we are unlikely to look at this period as one of high inflation or high interest rates. Instead, we will likely remember certain diseases becoming treatable, artificial intelligence (AI) becoming more usable, and when we started building our decarbonised infrastructure. In sustainable equities, we look to the future today, focusing on positive micro trends across vital industries.

'Atoms, bytes and genes'

The case for a structural positive outlook for sustainability lies in trends occurring at the micro level. Atoms, bytes and genes, which to us represent nearly all things in existence, provide a simple and powerful framework for understanding them. We are already embracing micro trends within our 'atoms, bytes and genes' framework to capture emerging innovations and opportunities for investing in established companies like AstraZeneca and Microsoft.

Atoms

Atoms represent the physical world and ongoing infrastructure investment such as the Inflation Reduction Act in the US. We think investment in the physical world, as we learn to accommodate decarbonisation and exploding quantities of data, will be a feature of economies for many years to come and could offset concerns about recessions and slowing growth elsewhere.

Bytes

Bytes represents digitisation and the continued prevalence of AI. We think digitisation and AI could result in a significant increase in productivity for the overall economy and could offset inflation concerns.

Genes

Genes represents continued advances in medical sciences such as obesity and Alzheimer treatments. We think obesity drugs, if taken appropriately, could save healthcare systems significant amounts of money from obesity-related diseases such as diabetes and heart conditions.

Working towards a cleaner, healthier, safer and more inclusive society

Putting this trifecta of positives together, we believe that we could get a prolonged period of stronger growth, lower inflation and healthier populations than is currently believed.

Sustainable equity investing, which is inherently optimistic and future-oriented, focuses on innovation and companies that contribute positively to ESG progress. The more the world develops new solutions for old problems, the better it is for society and sustainable investing.

"Sustainability is everywhere and nowhere. But investors must not get sucked into stereotypes about what sustainability can or can not be. Sustainability comes in many shapes and sizes, and so many companies out there are not trying to save the world but are great corporate citizens and worthy of investment."

Mike Fox
Head of Sustainable Investments

Schneider Electric – Helping customers meet environmental standards

A global leader in energy management and automation, Schneider Electric is influential in driving the energy transition. Serving sectors like buildings, data centres, industry and infrastructure, Schneider offers solutions to digitise, electrify and decarbonise operations, significantly contributing to a cleaner society.

Compelling business model and market position

Our investment in Schneider is driven by its leadership in key growth areas like electrification and digitalisation, its strategic shift to faster-growing markets, and its potential for increased operational efficiency. Schneider's strong market positioning and pivotal role in renewable energy integration further enhance its appeal.

Green Premium™: Over 75% of Schneider's product sales are from its Green Premium™ label, helping customers meet global environmental standards.

This range provides transparency on regulated substances, environmental impacts and circularity, demonstrating Schneider's dedication to eco-friendly practices.

Operational excellence in ESG: Schneider reinforces its robust operational ESG performance through regular sustainability reports tracking progress towards ambitious annual and long-term targets. It is committed to achieving net zero across its operations and supply chain, providing living wages, and to fostering inclusivity and gender equity within its workforce.

Ongoing progress

- Schneider has helped customers save or avoid 440 million tonnes of CO_2 since 2018
- Over 9.7 million people have gained access to green electricity since 2020, thanks to Schneider
- Approximately 400,000 individuals have been trained in energy management since 2009.

Engagement for net zero

In March 2023, we approached Schneider as part of the Net Zero Engagement Initiative (NZEI). Collaborating with other investors, our involvement in this initiative supports our 2030 goal to engage companies making up 70% of our financed emissions. We emphasised our request for Schneider to make a comprehensive net zero commitment, set carbon emissions targets, track emissions performance, and create a credible decarbonisation strategy. Schneider's response to our engagement letter will guide our next steps.

Edward Lifesciences – Advancing heart health in an ageing population

We held Edwards Lifesciences, a leader in minimally invasive heart surgery, in our sustainable fund range until February 2023, due to its significant role in healthcare. Specialising in treating aortic stenosis and developing innovative products for mitral and tricuspid valve repair, Edwards Lifesciences stands out as a market leader in a critical surgery area. The impact of its work is profound, particularly in heart disease treatments, which save approximately 500,000 American lives annually.

Original investment rationale and ESG observations

Global health contributions: With 550 million people living with heart or circulatory diseases worldwide, Edwards Lifesciences' advancements in heart health are crucial. Its work is increasingly important considering the ageing population in developed countries and rising consumption of unhealthy food in developing markets.

ESG practices: Edward Lifesciences displayed strong operational ESG practices, including a new net zero target. However, its water and waste targets appeared weaker than some peers, and its corporate governance was below average for a company of its size. While there were a few issues relating to negative screens, we would have preferred more performance-related pay and for the company to appoint an independent chair.

Divestment decision

Despite Edwards Lifesciences' clear sustainability benefits and leadership in healthcare, financial concerns led to our divestment. Post-Covid-19, the company experienced a slower recovery in procedure volumes, which management struggled to explain. Coupled with high valuation – led by the strong long-term growth rate – and underwhelming performance levels, we sold our investments.

Balancing financial and ESG performance

Our decision to divest from Edwards Lifesciences reflects our commitment to a balanced investment approach, weighing ESG factors alongside financial performance. While acknowledging the company's significant healthcare contributions, the financial uncertainties prompted us to reassess our position, demonstrating our focus on responsible, long-term investment strategies.

Spirax-Sarco Engineering plc – Improving energy efficiency to meet carbon targets

We invest in Spirax-Sarco Engineering plc, a leader in thermal energy processes and fluid management. It is helping customers increase energy efficiency and meet carbon emissions targets. It structures its operations around three segments:

1. **Steam specialities:** Capture and reuse steam through condensation management systems in heating, cooking, cleaning, sterilising and other industrial applications to enhance energy efficiency.

2. **Electric thermal solutions:** Through electrically-powered industrial heaters, controls, components and heat trace cables, customers like McGill University, which replaced a gas-fired boiler with medium voltage electric steam generators, can decarbonise heating processes traditionally reliant on gas or coal.

3. **Watson-Marlow:** These manufacturing pumps facilitate the safe and accurate movement of critical fluids in life sciences and process industries, enabling medical production and drug delivery.

Investing in a customer-first global operation

Spirax-Sarco stands out as a top engineering firm, thriving across various economic climates by manufacturing high-quality industrial products that enhance efficiency and decarbonisation.

Market position: With a significant global presence in major industrial economies and a diverse industry clientele, Spirax-Sarco excels in attractive, growing niches with strong margins.

17.7m

tCO_2e saved

Connection with customers: The company's growth is propelled by its deep customer relationships, cultivated by a more than 2,000-strong engineering-led salesforce, which has been instrumental in identifying and fulfilling unmet customer needs.

Operational excellence in sustainability: Spirax-Sarco excels in implementing ESG practices, particularly in operational decarbonisation, safety performance and gender diversity, with noticeable and conscious efforts to build a more diverse workforce.

30%

carbon saving in power

Ongoing impact

Reusing, cleansing and recirculating steam:

- Customers saved an estimated 17.7 million tonnes of CO_2e from the use of a select range of Spirax-Sarco's products.
- A university in Canada will achieve a 30% carbon saving on their power consumption, using Spirax's SteamVolt.

Increasing industrial heat, sourced from electric, beyond the current 5% level:

- Spirax-Sarco's ElectroFit products can be used to retrofit a fossil fuel-powered boiler.

Sustainable credit

Maintaining momentum in uncertain times

Despite the uncertain macro environment, the drive for sustainability has become increasingly clear, especially post-pandemic. Governments, businesses and consumers alike are recognising the urgency of sustainable practices. In this landscape, fixed income markets emerge as a promising avenue for investors who aim to support socially positive ventures without sacrificing returns. This sector offers unique opportunities to contribute to societal progress while achieving financial objectives.

Investing in a net social benefit

Our rigorous bottom-up sustainable research process involves a thorough evaluation of potential investments, ensuring they offer a net social benefit through their products, services or ESG risk management.

Accessing critical sectors

Our approach opens doors to critical sectors often inaccessible through equity markets, like social housing. It also encompasses bonds outside mainstream indices or those not rated by agencies, allowing us to back under-researched yet socially impactful organisations, while aiming to deliver strong risk-adjusted returns for our clients.

"Our edge comes from combining our unique sterling credit philosophy with our strong heritage in sustainable investing. Clients benefit from gaining access to investments that are often out of reach for equity investors."

Shalin Shah
Senior Fund Manager

Gas industry – Premier Transmission Ltd

In 2023, we re-evaluated our investment in Premier Transmission Ltd (PTL), a gas pipeline linking Scotland and Northern Ireland. While gas poses challenges in the climate transition, PTL reflects our focus on societal contributions over outright sector exclusions. Existing gas infrastructure is a 'bridge fuel' in the energy transition.

Critical infrastructure for Northern Ireland

PTL, a subsidiary of Mutual Energy Ltd, operates the Scotland-Northern Ireland Pipeline (SNIP), supplying all of Northern Ireland's gas through a 135km pipeline vital to the region's energy security. PTL's financial model is robust, with revenues generated from pipeline capacity, and bonds protected by a guarantee from a monoline insurer.

Societal benefits and challenges

Within our sustainable investment governance, we debated PTL's inclusion in our sustainable funds, particularly on the role of gas in the net zero transition. We concluded that gas remains integral to energy security and infrastructure, particularly in Northern Ireland, and distribution of gas to the region provides an important societal benefit. Our decision also recognises the interim role of gas as an alternative to more carbon-intensive sources, which remain prevalent in Northern Ireland, for example to heat homes. At the same time, the reliability of natural gas makes it an important energy source to support the scale up of renewable power.

Sustainable fund recommendation

With insight from our external advisory committee, we continue to include PTL in sustainable funds based on its net societal benefits. Gas infrastructure is a challenging sector, so our decision rests on PTL's critical role in Northern Ireland's energy supply. While we invest in gas distribution infrastructure for these reasons, we do not invest in companies with material exposure to fossil fuel extraction across our sustainable fund range.

Climate – E.ON SE

We integrate climate risks into our bespoke credit and sustainable analysis before and after purchasing securities. Our commitment to net zero encompasses engagement with issuers and advocating for emissions reduction targets and credible climate transition plans. E.ON reflects our active management approach in practice. In addition to strong ESG performance we value its high proportion of stable, regulated cash flows as an excellent fit for bond investors.

E.ON's role in decarbonisation

E.ON's operations in electricity grid management are pivotal in Europe's climate transition. Our proprietary climate assessment framework highlights E.ON's relatively strong performance.

However, there are areas of improvement, such as just transition disclosures, transparency around gas network investments, and lobbying practices.

Addressing biodiversity and cyber risk

While E.ON's role in decarbonisation is significant, other material issues like biodiversity and cyber risk are not to be overlooked. E.ON's biodiversity performance aligns with peers like National Grid and SSE. In terms of cyber risk, E.ON demonstrates lower transparency compared to its peers but has a governance system in place for cyber security.

Contribution to our sustainable funds

Our assessment recognises E.ON's crucial role in the energy transition and the strides it has made in transforming from a traditional energy provider to focusing primarily on electricity and gas distribution networks as well as customer solutions. In addition to its role in enabling decarbonisation, we'll continue to monitor E.ON's progress on other ESG factors, in line with our sustainable process.

Spotlight: Water utilities

We are a long-term investor in the water sector across equities and credit, with a history of research and engagement with UK water utility companies dating back to 2016. But recently, water companies have come under intense scrutiny.

Critical infrastructure delivering essential services

Ageing infrastructure, climate resilience, pollution events and the affordability of services during a cost of living crisis are the most critical issues for this sector. We look beyond the headlines, analysing issues to help us make better decisions for our clients.

The final investment decisions we reach will often differ depending on the asset class and type of fund. This is because each investment strategy has different risk, return and client requirements.

Key challenges

UK water companies are pivotal to the UK's infrastructure, delivering essential services like clean water and waste management, crucial for public health and environmental sustainability. The average annual water and wastewater bill in the UK is £448, or £1.22 per day. Water prices have increased slower than inflation, making them more affordable in real terms compared to a decade ago, aligning with European averages despite higher total expenditure and energy costs. Water companies' operations extend beyond basic utilities, encompassing environmental restoration efforts such as peatland rejuvenation and biodiversity enhancement in Sites of Special Scientific Interest (SSSI). They also focus on mitigating surface flooding and promoting responsible pesticide use.

However, despite their critical role and contributions, the sector has faced significant challenges recently, drawing considerable media attention.

Pollution: The UK water sector faces challenges with pollution and leakage, leading to waterway contamination and network issues exacerbated by extreme weather. However, advancements in sensors and artificial intelligence are improving spill and blockage detection, helping to mitigate potential pollution.

Water supply: UK water leakage rates, which are among Europe's best, have reduced by 43% since the 1990s, with a 7.2% decrease in the last three years. Lower leakage improves water resilience through less wastage and reduces associated carbon emissions through lower water pumping needs.

Infrastructure investment: The regulator has said that the UK water sector needs to invest about £96bn in the next few years for network improvement and resilience. In doing so, they need to balance investor returns and consumer costs, ensuring the infrastructure is fit for purpose without creating an affordability issue.

Active investors in the water sector

We maintain our differentiated active approach when investing in water utilities. We do this while recognising the water sector's significance to British society, the environment and our clients' interests. In tandem with our individual and collaborative engagements, voting, and research, we integrate ESG factors into our investment decisions.

Collaborative and evidence-led: Across all funds, our transparent, analysis-driven and evidence-based approach unifies our investment decisions. Our investment teams work closely with our Responsible Investment team, leveraging their research and insights to inform decisions and engage directly with the water sector.

Autonomous decision making: Our investment managers have the autonomy to take different perspectives on the risks, opportunities and ESG priorities for individual utility companies and the wider sector. We encourage our teams to be open-minded, independent thinkers who can exploit market inefficiencies through active management and maximise long-term risk-adjusted returns through appropriate diversification.

Engagement

For several years we have been engaging with the sector on its environmental challenges. More recently we have concentrated on climate change adaptation, biodiversity, affordability and antimicrobial resistance. In addition, we have created a coalition of our clients to work with us to help improve the sector.

Ambition: Climate change disrupts the water cycle, produces extreme weather events, and increases the risk of water scarcity and pollution. We want water companies to have comprehensive water and biodiversity management plans and climate adaptation plans and to consider social issues. We seek to understand how companies balance the need for infrastructure investment with affordability. We also ask how wastewater treatment can help deal with antimicrobial resistance, which is an urgent and emerging risk to human health.

Scope: We are engaging with all 11 water utility companies in the UK across equity and credit asset classes. We have seven clients or other asset owners participating in our engagements.

11

companies

8

investors

7 years

of sector research and engagement

Action: We have published several research reports, blogs and articles highlighting what best practice looks like and evaluating how each company is performing on ESG issues. We're now reaching out to companies to share best practices and seek improvements.

Read more:

- May 2023: ESG integration in UK water companies
- June 2023: Understanding best practice in UK water
- August 2023: Water utilities: Striking a balance between necessity and sustainability.

Voting

Not all water companies in the UK issue public equity. But for those that do, we vote at their annual meetings. In 2023, we opposed some resolutions because they didn't align with best practices. We supported other companies who we feel are leaders in the sector.

Pennon Group: We voted *against* Pennon's climate-related financial disclosure. Although we support the company's net zero ambitions, the details of the climate plan were unclear, particularly its over-reliance on offsets. This decision will be a focal point in ongoing engagement with the company.

Severn Trent: This company is consistently a leader in the UK water sector and demonstrates good governance and effective management of ESG issues. We supported most of Severn Trent's resolutions but opposed share issuances without pre-emptive rights in line with our standard UK position for all companies in 2023.

United Utilities: Similar to Severn Trent, we opposed share issuances without pre-emptive rights at United Utilities. We supported all other resolutions.

One sector, different decisions

Backed up by robust research, our investment teams make decisions to meet the long-term needs of our clients. Because each team has different mandates and must work within the parameters and boundaries established for each fund or client mandate, they can come to different decisions.

UK equity income: We think that water companies may not be able to pass the costs of infrastructure upgrades on to customers due to the political climate. If that is the case, we think this will affect profitability and dividends in the future.

- **Decision*:** Sold equity holdings in United Utilities, Pennon Group and Severn Trent.

Sterling credit: Our focus here is on lending to parts of the capital structure with strong bondholder protections, ensuring we can best safeguard our clients' money against credit loss. Because of these enhanced protections, as well as attractive credit spreads compared with other regulated sectors, we're comfortable holding companies that face challenges, while undertaking intensive engagement to improve practices.

- **Decision*:** Hold bonds in Affinity Water, Anglian Water, Dwr Cymru, Northumbrian Water, South West Water, Severn Trent, Southern Water, South East Water, Thames Water, United Utilities, Wessex Water and Yorkshire Water.

Sustainable equity: We believe water companies can provide good, stable returns to equity investors, but only if they meet the highest standards of environmental and social management. This is because poor performers face the additional risk to capital from regulatory fines and outcomes that can diminish equity value.

- **Decision*:** Avoid equity holdings in United Utilities and Pennon Group. Hold Severn Trent.

Sustainable credit: We believe the UK water sector provides a strong net benefit to society through the provision of a vital service, as well as strong protections for lenders through the regulatory framework. However, we also require appropriate ESG practices from each issuer we lend to. While UK water companies perform well versus international peers, our sustainable mandate means we avoid companies we deem to have weaker social or environmental practices, such as Southern Water. We will scrutinise and recognise signs of improvement, even where companies have under performed historically so we can take a long-term, holistic view of overall sustainability performance.

- **Decision***: Avoid bonds in Southern Water.

Ongoing commitment

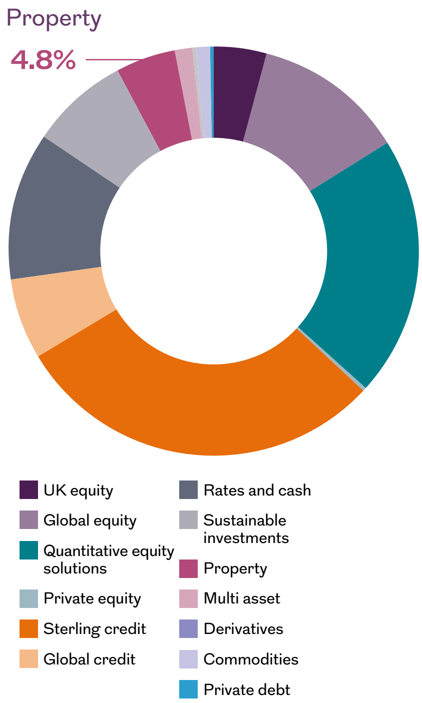
Our engagement, voting and investment strategies form a multifaceted approach that seeks to address the water sector's challenges, manage risks and capitalise on opportunities. Through active engagement, we aim to influence positive change in environmental and social practices. Strategic voting allows us to uphold best practice. And our differentiated active investment strategies enable us to navigate the sector's complexities and can on occasion take divergent views with the aim of achieving long-term, risk-adjusted returns for our clients. Bringing our responsible investment resources together reflects our investment principles and reinforces our ongoing contribution to the positive development and resilience of this vital sector.

* Decision: Investment decision current as of 31 December 2023.

Property

Property

Our Property team takes a forward-thinking approach to integrating ESG across our property investment activities. From investment decisions to our active asset management, we embed Responsible Property Investment (RPI) principles to enhance both the sustainability and financial performance of our portfolios.



Highlights

- **Published:** Our first Property Net Zero Carbon Pathway Progress Report in December 2023
- **Published:** Our latest Responsible Property Investment Report in December 2023
- **Energy and operational efficiency:** Hank, a new AI-backed end-to-end software solution for Heating, Ventilation, and Air Conditioning management saved ~£138,000 on electricity use
- **Improved data coverage:** Despite the complexities in collecting occupier utility data, we achieved 44% energy data coverage across our portfolio.

£8bn

assets under management

4

funds

"Our RPI strategic framework ensures that ESG is integrated across the full property life cycle, helping to create resilient assets with positive environmental and social impacts, whilst delivering better returns to our clients."

Laura Thrower
Responsible Property Investment Analyst

Embedding RPI across strategies and portfolios

Our diverse range of funds consistently emphasises quality, sustainability and long-term value creation. Each fund's unique characteristics and focus areas play a vital role in advancing our RPI agenda and showcasing our commitment to responsible investing.

Long-term institutional approach: Our overall portfolio strategy is grounded in a traditional UK institutional approach, focusing on long-term horizons, careful stock selection and a commitment to quality assets.

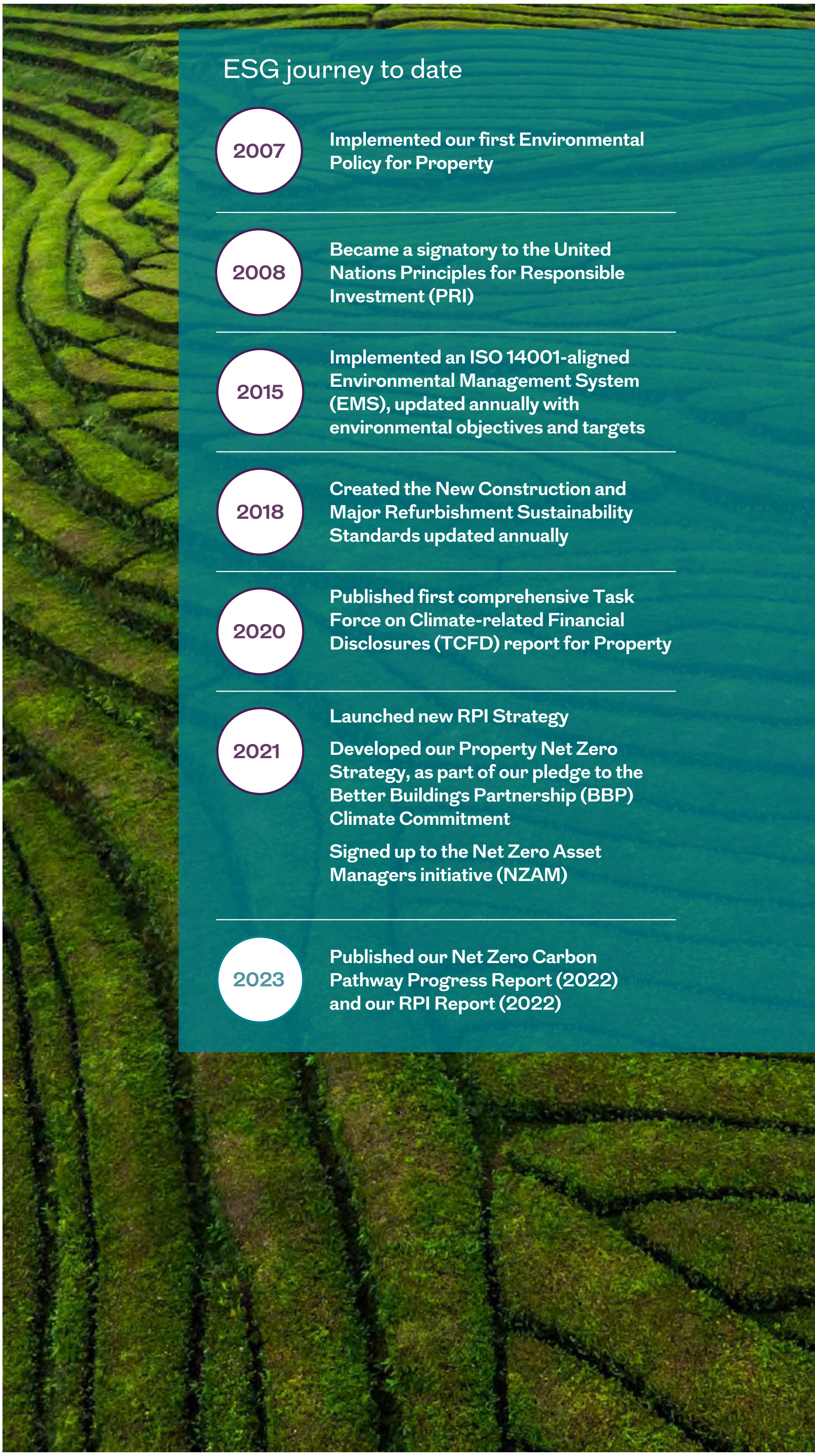
Geographical scope: With a focus on London and premier Tier 1 UK cities, we also explore wider UK regional opportunities in sectors like living, healthcare, and life sciences.

1,416

occupiers

227

properties



ESG journey to date

2007 — Implemented our first Environmental Policy for Property

2008 — Became a signatory to the United Nations Principles for Responsible Investment (PRI)

2015 — Implemented an ISO 14001-aligned Environmental Management System (EMS), updated annually with environmental objectives and targets

2018 — Created the New Construction and Major Refurbishment Sustainability Standards updated annually

2020 — Published first comprehensive Task Force on Climate-related Financial Disclosures (TCFD) report for Property

2021 — Launched new RPI Strategy

Developed our Property Net Zero Strategy, as part of our pledge to the Better Buildings Partnership (BBP) Climate Commitment

Signed up to the Net Zero Asset Managers initiative (NZAM)

2023 — Published our Net Zero Carbon Pathway Progress Report (2022) and our RPI Report (2022)

GRESB – Global ESG benchmark for Real Assets

The annual GRESB survey is recognised as a measure of sustainability performance. It is the leading ESG global benchmark for real estate and infrastructure investments. It is used as a key decision-making tool for investors, asset managers and the wider industry. GRESB assessments are based on seven sustainability aspects, including information on performance indicators, such as energy, greenhouse gas (GHG) emissions, water and waste. Our results for 2023 are illustrated below.

Standing investments section

Royal London Property Fund

Participation and score

2020	2021	2022	**2023**
69	75	73	76

Peer comparison

39th
out of 100

United Kingdom of Great Britain and Northern Ireland | Diversified | Core | Tenant Controlled

Royal London Pension Property Fund

Participation and score

2020	2021	2022	**2023**
73	79	77	81

Peer comparison

13th
out of 100

United Kingdom of Great Britain and Northern Ireland | Diversified | Core | Tenant Controlled

Royal London UK Real Estate Fund

Participation and score

2020	2021	2022	**2023**
79	80	82	83

Peer comparison

7th
out of 100

United Kingdom of Great Britain and Northern Ireland | Diversified | Core | Tenant Controlled

Development section

Royal London Pension Property Fund

Participation and score

2020	2021	2022	**2023**
87	91	94	91

Peer comparison

4th
out of 100

United Kingdom of Great Britain and Northern Ireland | Diversified | Core

Royal London UK Real Estate Fund

Participation and score

2020	2021	2022	**2023**
89	90	92	94

Peer comparison

3rd
out of 100

United Kingdom of Great Britain and Northern Ireland | Mixed use | Non-listed

Property *continued*

Our RPI strategic framework

The framework is our blueprint for ESG integration across the property life cycle, encompassing acquisitions, developments, asset management and leasing.

Our four pillars, covering investing in resilient portfolios to responsible decision making, lay the groundwork for positive environmental and social impacts while driving financial returns.

Pillar one: Investing in a resilient portfolio

We apply future-proofed investment decisions to shape resilient portfolios, within which the assets meet the evolving needs and aspirations of our occupiers and investors.

Addressing climate resilience

Our objective to shape resilient portfolios aligns directly with our recognition of climate change as a significant global challenge.

Mitigating emissions contributions: We are working towards achieving net zero carbon for our directly managed property assets and developments[1] by 2030 and our indirectly managed property assets[2] by 2040.

Flood risk assessments: We have initiated flood risk assessments across our entire portfolio, evaluating current risks and future climate change scenarios. Properties with high flood risk ratings will undergo further detailed assessments to ensure a thorough understanding of each site's specific flood risks.

Minimising climate risk: We have undertaken an assessment of our most material climate-related risks and opportunities to identify appropriate measures to minimise risks across our property assets. This has been disclosed through a TCFD-aligned report within our Net Zero Carbon Pathway Progress Report (2022).

Actively working to prepare our properties for future regulations

All assets reviewed: Our Energy Performance Certificate (EPC) programme has reviewed all our assets under management to identify ways to improve their energy efficiency performance. We have prioritised new EPCs for units and assets based on criteria, including pending sales and expiries.

We also ensured that EPCs are reflected accurately on the national EPC register.

Lifting EPC ratings: The forthcoming Minimum Energy Efficiency Standard (MEES) is expected to require a minimum EPC B rating by 2030. We are undertaking EPC improvement cost assessments for assets rated below a B rating, and developing clear and actionable recommendations to improve their energy efficiency, and subsequently the assets' EPC rating.

Implementing recommendations: We have embedded these recommendations in our asset business plans, with asset managers responsible for implementation. This ensures our portfolio remains resilient and compliant with future standards.

Progress on renewable energy generation

2022 solar PV feasibility study: We analysed 124 assets across various factors influencing their potential for onsite solar photovoltaic (PV) installation. This study has been crucial for identifying opportunities and guiding our future actions in renewable energy.

2023 PV Working Group: This group, comprising representatives from our RPI and sector-specific teams, is developing an implementation strategy to achieve our renewable energy target of generating up to 9.5 GWh (equivalent of 11.2 WM of capacity) of renewable energy on-site per year by 2040.

New PV installations: We will aim to engage with occupiers to identify opportunities to install PV and provide them with green energy.

1. Directly managed property assets are those over which Royal London Asset Management has complete operational control, greater than 50% equity share, and joint ventures where they would cover the proportionate amount of emissions. Developments are any new development or major refurbishment that comes online from 2030 onwards.
2. Indirectly managed property assets are either partially managed by Royal London Asset Management or managed wholly by the occupier.

Pillar two: Developing for the future

We aim to create thriving buildings and places through sustainable development and refurbishment which have enduring appeal for occupiers and add value to local communities.

New construction and major refurbishment standards

We updated our New Construction and Major Refurbishment Sustainability Standards to align with best practice and industry guidance. We aim to review these Development Sustainability Standards regularly and as our RPI Strategy evolves. Our annual Statement of Achievement highlights progress against our sustainability standards, using case studies of our development and major refurbishment projects.

Elevating sustainability in the healthcare sector

We have a healthcare fund which encompasses 15 assets, including 13 standing investments and two ongoing developments. Recognising the sector's slower integration of sustainability practices, we initiated a comprehensive approach to influence significant positive changes across our healthcare assets, encouraging collaboration on ESG goals between our design and development partners.

Sustainable Asset Management Brief (SAMB)

The SAMB is a crucial component of our Healthcare Real Estate Programme's ESG Framework, detailing the ongoing reporting process for all operational assets. It complements the Sustainable Development Brief (SDB) and Sustainable Acquisition Checklist (SAC) which guide the addition of new assets to the Programme.

Alignment with SFDR and EU Taxonomy: The Programme actively aligns with the Sustainable Finance Disclosure Regulation (SFDR). This involves aligning a portion of assets with the EU Taxonomy, particularly under the Real Estate Section (Section 7), which includes activities with specific compliance criteria, integrated into the SDB and SAMB indicators.

Sustainable asset management objectives: We are dedicated to embedding sustainability in all Programme developments, with objectives linked to the UN Sustainable Development Goals:

- **Net zero carbon:** Aiming for net zero carbon through improving operational efficiency, incorporating renewable technologies and offsetting remaining emissions.
- **Health and wellbeing:** Enhancing physical and mental health for residents and care workers in new and existing developments.
- **Social value:** Fostering social and environmental value through engagement.

Tracking progress: We track these objectives through KPIs and indicators across the three themes, ensuring comprehensive sustainability integration.

Progress since launching the fund

Since the launch of the healthcare fund and its associated sustainability briefs, we have seen some significant achievements regarding RPI.

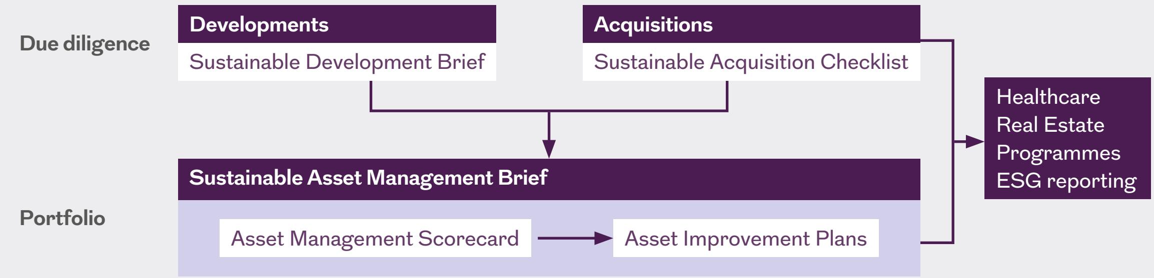
Collaboration with LNT Care Developments: In partnership with LNT Care Developments, the fund has successfully developed eight all-electric, low energy, EPC A-rated care homes featuring ground source heat pumps, advanced insulation, and over 500 sqm of solar PV panels per home.

Carbon emissions and life cycle assessment: Recognising that over three-quarters of carbon emissions from new care homes are construction-related, we conducted a Whole Life Carbon Assessment for the ongoing development in Milton Keynes, improving on the industry standards[1].

Promoting sustainable transport: Thorn Springs in Houghton Regis and Millcroft in Redditch, the first two care homes built for the fund, offer infrastructure to support sustainable transport, including two active electric vehicle charging spaces and 10 cycle racks.

Wellbeing and biodiversity: All new homes are complemented by extensive gardens, enhancing occupant wellbeing and contributing to net gains in biodiversity.

Healthcare sustainability framework



1. Our Whole Life Carbon Assessment in our ongoing development in Milton Keynes resulted in an upfront embodied carbon of 636 $kgCO_2e/m^2$ (GIA), improving on the industry standards which vary from 750-1,400 $kgCO_2e/m^2$ (GIA), depending on building type.

Property *continued*

The Earnshaw, London

The Earnshaw, originally a dated 1950s office building in London, was redeveloped from 85,000 sqft to a modern 155,355 sqft facility across 12 levels. This revamp resulted in a 70% increase in floor area, aligning with our Development Sustainability Standards, including:

Eco-friendly design: Transitioned to a fully electric building with solar panels, targeting a net zero carbon operation.

Wellbeing enhancements: Emphasised natural daylight for energy efficiency and occupant health, and installed over 230 bike spaces and end-of-trip facilities for active transport.

Certification goals: Aiming for EPC rating A, BREEAM Outstanding, and WiredScore Platinum. Targeting WELL Gold certification.

Helping new occupiers fulfil sustainability commitments

We successfully pre-let the building to healthcare company GSK for its headquarters in December 2022. The Earnshaw's commitment to sustainability and employee wellbeing, can help new occupiers fulfil their own sustainability commitments.

Pillar three: Managing assets for positive impact

We work in partnership with our occupiers and local stakeholders to deliver social value and positive environmental outcomes through our assets.

Net zero carbon commitment

Through audits and technical feasibility studies, we are laying down a roadmap for practical, sustainable change, ensuring that our assets are in line with global sustainability standards and can help us achieve our net zero carbon goals across our directly managed property assets by 2030.

Audit completion for 22 multi-let offices: We successfully conducted net zero carbon audits for 22 multi-let offices, a crucial step in aligning these properties with the 1.5-degree pathway defined by the Carbon Risk Real Estate Monitor (CRREM). These audits provide a clear analysis of the building's operational energy performance evaluated against industry benchmarks, and outline the necessary interventions plotted against our net zero carbon pathway.

Feasibility studies: Following the audits completed in 2023, we undertook Mechanical and Electrical (M&E) feasibility studies for targeted assets, as dictated by short-term asset management plans. These studies ensure that the suggested interventions from the net zero carbon audits are practical for each property. This includes considering factors such as the life cycle of existing systems and the tenancy schedule.

Pillar three: Managing assets for positive impact *continued*

Ongoing 2024 commitment: We are committed to extending our net zero carbon audits to the remainder of our multi-let offices in 2024, ensuring comprehensive coverage and alignment across our entire portfolio.

Expanding occupier data collection

Collecting utility data across our portfolio is fundamental towards monitoring the operational performance of our properties, enabling us to create spaces that positively impact both the environment as well as the occupier experience. In 2022, we launched an ambitious occupier data collection programme, blending innovative approaches and updates to our green lease clauses to strengthen collaborations and sustainable outcomes. This programme has continued throughout 2023.

New real-time data devices: We implemented a utility logger programme and installed Automatic Meter Reading (AMR) devices across a number of our properties, targeting our larger single-let properties. Instrumental in capturing real-time energy usage data, these provide us with accurate and consistent information to track our progress towards our net zero carbon goals.

Specialist consultancy for energy data: Acknowledging the challenges in obtaining high-quality utility data across our single-let properties, we engaged a specialist consultancy to access aggregated, anonymous energy data at the building level from a national database across an initial 500 single-let units. We've also appointed another consultancy to increase our data coverage across just under 1,000 single-let units.

Increase in data coverage: We have now achieved 44% energy data coverage across our entire portfolio as of December 2023. We're also receiving data across 40% of our single-let portfolio, an accomplishment given the complexities of collecting utility data from occupiers.

Collaborative sustainability: By developing a suite of occupier engagement and data collection initiatives, we're opening avenues for meaningful collaborations. These initiatives contribute significantly to our understanding of emissions across our operational portfolio, helping us to identify where interventions may be required to improve the energy efficiency of our properties.

Optimising building performance

One of the first steps in achieving net zero carbon is enhancing the operational energy performance of our properties. A major component of this is optimising Building Management Systems (BMS) through the integration of smart technologies. This not only curbs unnecessary energy usage but cuts carbon emissions and reduces costs for our occupiers.

Introducing Hank: Hank is an end-to-end software solution handling the intricacies of Heating, Ventilation, and Air Conditioning (HVAC) management in commercial real estate.

AI-driven optimisation: Hank seamlessly integrates with existing BMS, using AI to enhance HVAC operational efficiency, maximising occupier comfort and reducing energy use. This AI-powered platform, supported by a team of engineers, complements on-site staff, enabling greater efficiency and effectiveness in building management.

Widespread implementation: We have successfully deployed Hank across nine buildings. Our focus is primarily on multi-let offices, aligning with our net zero carbon by 2030 target.

Proven results: The first implementation, at 45 Church Street in February 2023, has already optimised energy use to achieve financial savings of around £138,000 from a reduction in electricity and consumption of around 500 tCO_2e less in gas.

Commitment to smart technologies: Moving into 2024 and beyond, Hank and similar smart technologies remain a focal point of our strategy, underlining our commitment to achieving operational excellence.

Developing our social value strategy

We have started developing our social value strategy. This strategy aims to identify how our assets and investment activities can effectively respond to those needs and pinpoint opportunities best suited to particular asset types, considering sector and management arrangements.

Consultation and team involvement: Our appointed consultant is working with our various teams, including internal sector, portfolio and fund management teams, as well as external teams such as our managing agents. These discussions are crucial for grasping societal priorities local to our assets and existing social value activities.

Internal consensus and framework development: Our teams are working towards building an internal consensus on the definition and importance of social value. The next step involves organising workshops with our newly established Social Value Working Group to further develop and refine the framework.

44%

energy data coverage

500

tCO_2e gas saved at 45 Church Street

Property *continued*

Pillar four: Responsible decision making

We draw from trusted partnerships with a diverse range of stakeholders to make forward-thinking decisions that address our material issues and ensure transparency.

Expanding training programmes in 2023

Tailored training and workshops: With the support of an external consultancy, we conducted an all-day RPI workshop for the Property team in 2023. This was a strategic move to both expand ESG and climate training across Royal London Asset Management and to ensure the ongoing integration of our RPI Strategic Framework, investing in our people and solidifying competencies in responsible investment.

Training and network development: In 2023, 12 Property team members enrolled in and completed the Better Buildings Partnership (BBP) ESG Training Course for Real Estate Professionals. This programme unites diverse roles, fostering a holistic grasp of ESG risks and opportunities, empowering our team to make informed and responsible decisions.

Benchmarking and recognition

GRESB: As a measure of sustainability performance, the annual GRESB survey is recognised as the leading ESG global benchmark for real estate and infrastructure investments. It is also a key decision-making tool for investors, asset managers and the wider industry.

Please see page 79 for our GRESB results.

PRI: We have been a signatory of the United Nations PRI since 2008, reporting annually against various ESG criteria. In 2023, they awarded us 96% for the real estate module, equating to the top five-star rating and surpassing the median score of 64%.

Green Apple Environment Awards: Designed to recognise, reward and promote environmental best practices globally. The Property team achieved an unprecedented 24 Green Apple Environment Awards.

24

Green Apple Environment Awards

Industry collaborations

Building partnerships and commitments: Our active engagement with industry bodies such as the BBP, NZAM and the UK Green Building Council (UKGBC) influences the effectiveness of our collaboration, innovation and sustainability leadership in the real estate sector.

Strategic actions and goals: These partnerships place us at the forefront of advocating for net zero buildings by 2050 under the BBP's Climate Commitment, participating in working groups and aligning our investment strategies with a net zero emissions future. Our involvement reflects our proactive stance in driving the industry towards a more sustainable and responsible real estate ecosystem.

96%

Core in 2023 UNPRI survey

The Earnshaw

Multi asset

Multi asset

Different asset types tend to perform well under different conditions and at different times. We offer our clients an effective means of combining their exposure through a diversified strategy, integrating ESG considerations into well-balanced and dynamic multi asset portfolios.

Highlights

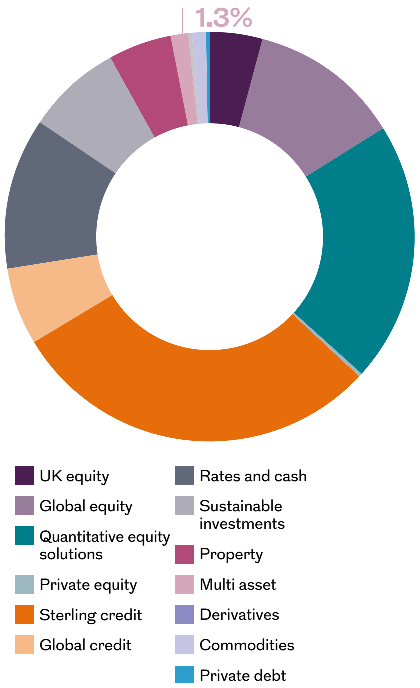
- **Commodity methodology shift:** Innovating with ESG-tilted investments, reducing exposure to higher-carbon commodities
- **Climate-focused asset transition:** Integrating climate impact in our largest fund's strategic asset allocation (SAA), balancing risk, reward and environmental responsibility
- **Climate change and inflation:** Our Senior Economist published an analysis on the critical influence of climate change on inflation, highlighting transition costs, extreme weather impacts and shifts in energy sources as key drivers.

Tactical asset allocation process applied to

£86bn

Whilst the chart refers to the external money run by the Multi Asset team, the team applies its dynamic tactical asset allocation process to £86bn across the different asset classes.

Multi asset



"This year, our multi asset strategies significantly advanced, notably with our innovative ESG-tilted commodity investments, reflecting our deep commitment to responsible investing across diverse asset classes."

Trevor Greetham
Head of Multi Asset

Typical multi asset mix

Integrating ESG in multi asset strategies

ESG across asset classes: We invest across a broad range of asset classes, blending in-house funds to embed ESG principles in our investment decisions.

Strategic partnerships: For an asset class like commodities, we have worked collaboratively with external partners, such as Bloomberg, to access better outcomes for our customers.

Strategic asset allocation

Broad diversification is central to our multi asset portfolios, offering resilience against market shocks. Each portfolio benefits from strategic asset allocation, featuring a diverse range of assets aimed at delivering above-inflation growth over the medium to long term. Our strategic asset allocation process incorporates broader ESG factors, such as economic forecasts and climate scenarios, to assess portfolio resilience and understand risk-return drivers.

Tailored ESG integration across asset classes

Our multi asset strategy employs distinct approaches for different asset classes, reflecting the tailored approach each investment team takes to integrating ESG into their investment decisions.

Equities:

- Investing in our tilted equity funds to reduce exposure to high-carbon emitters and poor ESG performers
- Actively managed funds, with ESG integrated as part of investment decisions
- Focus on governance in emerging markets via a specialist fund tracking an ESG benchmark.

Fixed Income:

- ESG integrated in bottom-up analysis, valuation and selection of debt securities, looking beyond simple credit ratings
- Collaboration between Credit and Responsible Investment teams to deepen analysis
- Seek pre-emptive controls for bondholders to improve issuer influence.

Property:

- Focus on high-quality premises for long-term returns
- Implementing net zero plan/roadmap.
- Developing strategies to install onsite solar photovoltaic to help achieve renewable energy targets
- Integrating smart technology to improve energy usage, cut carbon emissions and reduce occupier costs.

Commodities:

- Investing in financial products that track futures contracts linked to stabilising and enhancing returns
- Research has helped better incorporate ESG and climate considerations
- Strategic use of ESG-tilted exchange traded funds (ETFs) to favour commodities with a lower carbon cost of production.

Derivatives:

- Used for dynamic tactical asset allocation
- Oversight and 'best execution' processes embed critical governance factors into investment decisions
- ESG analysis supports decisions to onboard or avoid counterparties.

Active engagement and carbon reduction

Royal London's asset class and RI specialists actively engage with companies to influence their behaviour to address ESG risks and capitalise on opportunities. Our initiatives support carbon reduction and the transition to a more sustainable world, considering societal impacts. Our approach favours engagement over exclusion. However, we employ negative screening to exclude issuers involved in controversial weapons and, in some funds, we use enhanced ESG screening to remove exposure to issuers with poor ESG credentials. Our balanced approach across our multi asset funds ensures that our clients get the financial return and diversification they are seeking, while ensuring ESG analysis is embedded from the bottom up.

"Climate change matters for inflation. The combined effect of the ongoing transition to lower CO_2/greenhouse gas emissions and the direct impact of climate change is one of several likely-to-linger upside pressures for inflation… Climate change-related factors may both keep inflation on average higher than it would otherwise be, but also more volatile."

Melanie Baker
Senior Economist

Strategic asset allocation and climate risk

We conducted a strategic asset allocation (SAA) change for our largest managed equity fund where climate impact, alongside traditional risk and reward considerations, played a key role. We used long-run capital market assumptions, incorporating our climate change base case and our resilience testing included climate-specific scenarios. While WACI Scope 1 and 2 increased slightly for the benchmark, we were able to make greater use of carbon tilts in the equity building blocks to achieve a reduction in WACI for the fund. The ongoing review process involves monitoring the fund holdings and tracking emerging ESG considerations to ensure a balance between responsible investment practices and maximising growth.

Spotlight: Building the world's first carbon-tilted commodity fund

Investing in commodities as part of a risk-controlled multi asset portfolio gives people saving for their retirement some protection against unexpected increases in the cost of living. To overcome a lack of suitable ESG-focused commodity solutions, we collaborated with Bloomberg to create an innovative carbon-tilted index. And we were the cornerstone investor that helped launch the first exchange traded fund to track the new index.

Commodities' role in the global transition

Raw commodities are fundamental to the global economy and our shift towards a more sustainable future. For example:

- **Copper:** Essential for electrifying energy systems currently dependent on fossil fuels
- **Zinc:** A versatile metal that is highly recyclable and used in zinc-ion batteries
- **Agricultural commodities:** Efficient production and distribution of corn and other agricultural commodities are vital for biofuel feedstocks and feeding our growing population
- **Crude oil:** While we make the energy transition, oil remains integral for driving cars and transporting goods.

Commodity futures explained

Most commodities are expensive, difficult to store and have limited shelf life. Our exposure is through investment products that track 'futures' – financial instruments that track contracts agreed between buyers and sellers of raw materials. The contract specifies the date the seller will deliver the asset, and the price that will be paid. Instead of taking physical delivery of the commodities, the investment products we use periodically sell these futures and reinvest in longer-dated contracts. This means we never own the commodities directly, but we have exposure to changes in their price.

Benefits: The sellers of commodities, for example grain farmers or mining companies, benefit from receiving a guaranteed price to sell their product, giving them more certainty and less risk of a sudden or unexpected price drop. On the flip side, these sellers miss out on the benefit if prices rise.

Impacts: Commodity futures do not directly impact the production or consumption of commodities. However, speculative trading by other market factors may impact commodity prices in the real economy.

Carbon accounting: Currently there is no agreed method for measuring the emissions associated with investing in derivatives like commodity futures. That means commodity exposure does not reduce or increase the carbon intensity of our investment portfolios.

Carbon tilts: While investors in futures are not responsible for the consumption of the underlying commodities, they do provide a service to the producers of raw commodities that allows them to reduce their financial risk. Our goal was to consider ways to incorporate climate factors into our approach to commodity investing, and then to work with industry partners to evolve best practice.

20%

the expected reduction in greenhouse gas emissions attributable to the production of the commodities in the Carbon Tilted Index*

* as an average when compared to the greenhouse gas emissions attributable to the production of commodities in the Bloomberg Commodities Index

24

number of commodities in the Bloomberg index encompassing energy, grains, softs like coffee and sugar, industrial metals, precious metals and livestock

Carbon tilting

The carbon tilting process is designed to reduce the carbon profile of the overall fund while maintaining exposure to a diversified set of commodities. The process overweights commodities with a lower carbon footprint and underweights those with a higher footprint. This is measured based on the greenhouse gas emissions associated with a unit of production of each commodity.

The fund minimises tracking error to the flagship index

Incorporates emissions associated with the production processes linked to each commodity

Within each sector, it overweights commodities with a lower carbon footprint from production

Lower carbon profile while maintaining diversification benefits and inflation hedging characteristics

Bloomberg partnership: Innovating to create a new index

Objective: To create innovative solutions that integrate ESG issues into commodity investing by developing a carbon-tilted commodity index and exchange traded fund (ETF).

Purpose: The index is designed to help investors invest more in commodities produced with lower carbon intensity (overweight) and less in commodities produced with higher carbon intensity (underweight).

Data challenges: To construct the index, the models require data on the carbon intensity of production for each commodity worldwide. This data is scarce and requires data partners to quantify the environmental and carbon impact at each stage of the commodity production process to form a 'life cycle analysis' for each commodity. The analysis helps estimate the carbon emissions. Then the tilt models use it to increase or decrease exposure to certain commodities based on the Scope 1 and 2 emissions of their production.

Our role: Over a year-long collaboration with Bloomberg, we advised on the methodology of the index, leveraging our experience developing and launching equity tilt funds. Our Multi Asset team and our Responsible Investment team met with Bloomberg and its data partners to assess the robustness of the methodology.

Outcome: The index adjusts exposure to individual commodities to cut Scope 1 and Scope 2 emissions of the index by about 20%. It does this while balancing sector weights to control tracking error.

Launch: The index launched in May 2023. We also provided capital to help launch an ETF to track the index in July 2023, making the approach available to everyone investing in the asset class. We have taken part in joint events to raise the profile of ESG commodity investing.

Carbon tilts in action

Example sector tilts

Livestock sector: Underweight on cattle futures, primarily due to the higher fertiliser usage and methane emissions associated with cattle farming. Overweight exposure to lean hogs (pigs).

Industrial metals: Underweight aluminium and nickel due to higher emissions from the mining and processing of these metals, and overweight copper and zinc.

Agriculture: Underweight cotton, coffee and sugar due to the carbon intensive production processes, and overweight wheat and corn.

Energy sector: Underweight natural gas and overweight Brent crude oil. Although natural gas is a cleaner-burning fuel producing lower Scope 3 emissions, it is more carbon intensive to produce than Brent crude. The focus on Scope 1 and 2 emissions presumes Scope 3 emissions attach to the companies making use of commodities, not the producers.

A promising start to a complex challenge

We're pleased to be part of this first attempt at integrating ESG factors into a commodities index, and the founding investor in the first fund. This initiative marks a significant first step in considering ESG issues within alternative asset classes like commodities. These often pose more complex challenges than traditional asset classes like equities and credit. We view this new index as a promising development, albeit with inherent challenges.

Methodological challenges: One key challenge lies in the methodology, which focuses only on Scope 1 and 2 emissions from commodity production. This approach does not account for emissions from the final use of the products (Scope 3). As a result, the index overweights oil, which is relatively carbon efficient to produce but has a higher climate impact when burned. This may seem counter intuitive.

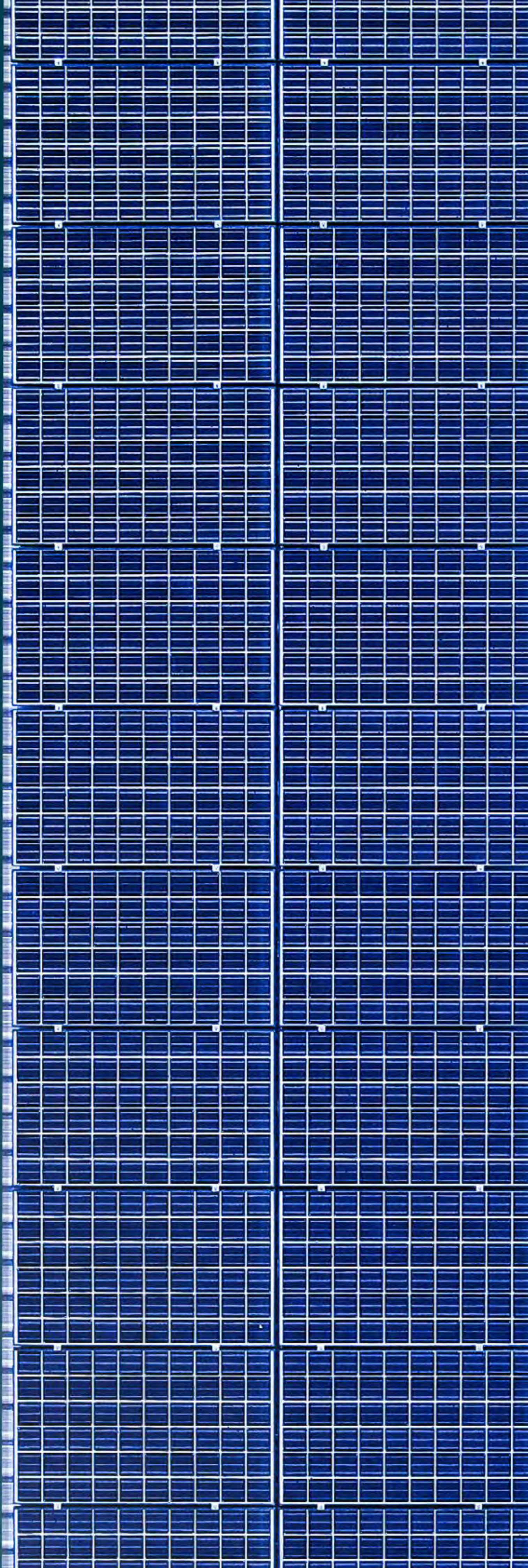
Future developments: Considering the carbon impact of commodities' end-use could be an area of future development. Additionally, incorporating other environmental factors like water intensity as well as exposure to physical climate risks (for example, sea-level rise, extreme weather events) could enhance the index's comprehensiveness.

Transition minerals and advanced technologies

Looking further ahead, the index could benefit from a greater focus on 'transition minerals' essential for shifting from fossil fuels to electricity, batteries and cleaner energy technologies. Advances in blockchain, satellite technology and generative AI could enable more detailed tracing of commodities from 'farm to fork' or 'mine to machine', providing a more granular view of environmental and social impacts across the commodities' life cycle. Both developments could potentially influence future index adjustments.

Our role as a responsible investor

As responsible investors, we believe we have a role to play in developing new approaches and fostering innovation that creates better outcomes for our clients and wider society. While this index represents a positive start, we know there is more work to do. We anticipate further developments and hope to encourage more innovative products to come to market that integrate ESG factors into alternative asset classes.



Further reading

Our approach to responsible investment

Engagement

Engagement is vital to encouraging companies to improve, reduce investment risk and deliver better outcomes for clients and society. We engage across our equity and fixed income funds to enrich our investment insights and fulfil our stewardship responsibilities, enhancing our investment process and contributing positively to society and the environment.

Earlier in this report:

- Examples of our engagement activities
- Engagement data covering scope, objective and theme (page 13).

On our website:

- Responsible Investment Policy, including our engagement approach.

Engaging with purpose

Engaging with the companies we invest in, either for information or seeking change, aids us in understanding how ESG risks affect our investments. And, in turn it helps us understand how our investment decisions impact the environment and society.

- **Engagement for information:** As a first step, we initiate conversations with companies to deepen our research, enhancing our ESG understanding and investment decisions.
- **Engagement for change:** We aim to influence company policies and practices for long-term impact. This focused engagement sets clear objectives and may extend over a longer period.

Engagement themes

We select our engagement themes to address ESG risks and the principal adverse impacts (PAIs) of our investments on the environment and society. These themes span various ESG risks, issues and indicators, aligning closely with our investments and client interests. Our focus areas include climate and environmental concerns, alongside social issues like employment practices, human rights, anti-corruption and anti-bribery.

Monitoring and engagement: We report PAI performance and monitor other ESG issues, such as carbon emissions, across our investments. When serious issues affect our customers' long-term interests, we engage with companies to drive improvements.

Reporting and transparency: We detail our actions to address PAIs and ESG risks, along with the outcomes achieved, in our annual Stewardship and Responsible Investment Report, as well as our Net Zero Stewardship and Just Transition reporting, which outline our recent and future engagement plans, ensuring transparency and accountability in our stewardship efforts.

Reviewing and adapting: We review our engagement themes every two years to stay aligned with evolving ESG risks and opportunities. While we address various topics, this review focuses specifically on ESG themes. Our comprehensive review process involves consultations with fund managers, responsible investment analysts, clients and other stakeholders. We assess portfolio exposures and incorporate academic research on emerging ESG risks to select our themes. Our objectives are to:

- **Identify priority themes:** We aim to pinpoint engagement themes most relevant to our material holdings
- **Address ESG practices:** We ensure our themes confront any poor climate and ESG practices within our holdings
- **Align with our Purpose and values:** We prioritise themes that resonate with our Purpose, culture and values.

2023 review: For the results of our latest engagement theme review, refer to page 16.

Different approaches

For reactive engagements, we typically 'engage for information' but may also make specific requests for companies to change practices or behaviours. We focus our proactive and thematic engagements on delivering change or driving real-world positive impacts. We call this 'engaging for change'.

- **Reactive engagement:** Addressing news events or specific time-sensitive issues impacting one or multiple companies.

When responding to specific market or company events, the extent of reactive engagement depends upon the size and nature of any PAIs, the severity of our concerns, the level of importance to our clients, and the size of our holding.

- **Proactive engagement:** Engaging with an individual company based on specific risks and opportunities we have identified to address an ESG issue or using our engagement themes to address systemic risks and opportunities with multiple companies on one or more topics.

Targeting our engagement resources appropriately

We choose which companies to engage with using one or more of the following criteria:

- Address a principal adverse ESG impact or poor governance
- Meet the needs and expectations of clients
- Material and relevant to investment decisions
- Central to a 'transition thesis' that drives beneficial investment and societal outcomes
- Is likely to have a positive effect on society and the environment
- Has the potential to impact corporate ESG or financial performance or reduce risk
- Raises best practice standards within a sector or market
- Adds value in advancing thought leadership and good governance

Our approach to responsible investment *continued*

Escalation

Our escalation approach is critical to our engagement strategy and is applied to equities and credit. We take action when faced with companies that are unresponsive to engagement or fail to address material risks, yet have significant, persistent or intractable ESG issues and pose a risk to our clients' assets:

- **Internal escalation:** We first escalate issues to the Head of Desk, the Chief Investment Officer and the Head of Responsible Investment for in-depth discussion and decisions on subsequent actions
- **Investment Committee reporting:** If we escalate an engagement, we report our decisions and actions to the Investment Committee for information and recording.

We may also take direct firm-level actions:

- **Senior-level engagement:** We may escalate matters to the company's chair or senior executives
- **Shareholder voting:** Using our votes at annual or general meetings to influence directors or management
- **Shareholder resolutions and public comments:** We may file or co-file shareholder resolutions or issue public statements when appropriate.

Integration with ESG strategy

Whether successful or not, the outcomes of our engagements are integral to our investment process and ESG integration strategy. Fund managers often participate in engagement meetings and incorporate these outcomes into their risk and return evaluations, influencing investment decisions. This assessment considers the materiality of the issue, risk mitigation factors and the investment's time horizon, among other aspects. We tailor our decisions to each fund's specific financial and non-financial objectives set by our clients.

Diverse responses to engagement outcomes: The impact of ESG risks, opportunities and PAIs on investment decisions will vary between funds. In instances of unsuccessful engagement or where a material ESG issue has been identified, our response will depend on the fund type or strategy:

- **No further investment:** We may choose not to invest additional capital in the company
- **Divestment:** Selling our existing holdings in the firm is an option
- **Tilting:** We may consider underweighting the company relative to the reference benchmark for our quantitative or tilted strategies.

Investor collaboration

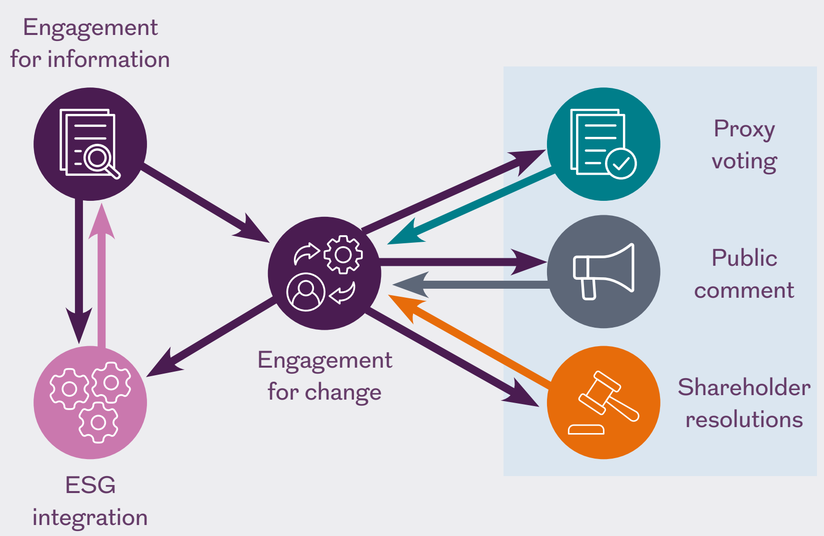
While prioritising direct communication with companies, we recognise the value of collaborating with other shareholders or bondholders to influence a company's behaviour. We consider our collaborations case-by-case, ensuring compliance with relevant regulations such as market abuse and competition law.

We favour collaborative engagement under specific circumstances:

- **Unresponsive companies:** When a company has not responded to private engagement or its actions are insufficient to address our concerns
- **Serious situations:** If the issue is grave enough to warrant a collective approach
- **Enhanced access and influence:** Partnering with larger shareholders or bondholders can provide better access to management or the board and amplify our influence
- **Local advantage:** In jurisdictions where local partners can augment our engagement through their physical presence and understanding of local practices.

Refer to page 19 for further information on our approach to advocacy, and the Stewardship and Responsible Investment Section from page 8 onwards for examples of some of our collaborative engagements this year.

Our engagement approach



Regular company meetings and record-keeping

Our ESG engagement meeting records include the meeting's objectives, attendees, minutes, and key outcomes and issues discussed. These records are crucial for tracking company progress in addressing ESG issues and help us keep our investment teams and clients informed about ongoing engagements.

Investment team engagement: In many cases, our investment teams maintain regular contact with investee companies. These interactions, often occurring multiple times a year, are vital for covering strategy, both financial and non-financial performance, risk profile, capital structure, ESG considerations, and other material factors. Each investment team documents these financial meetings, providing a record of all engagements.

Voting

We proactively exercise our voting rights across our equity and fixed income holdings to maximise our influence and safeguard client interests.

Earlier in this report:

- Examples of voting decisions and outcomes of resolutions
- Proportion of shares we voted in and why.

On our website:

- Voting guidelines
- Voting records.

Our voting guidelines

Our proxy voting guidelines, available on our website, reflect our commitment to transparency and responsible stewardship.

We do not auto-vote: In applying our voting guidelines, we exercise discretion and consider a company's circumstances while pursuing the interests of our customers and clients.

Resolution analysis: We analyse each resolution to ensure the company's actions align with our guidelines and local best practices.

Consistency over time: We aim to be consistent in how we vote year after year. Changes in our vote are contingent upon material change by the company.

Reflection of engagement: How we vote also reflects our engagement with companies we invest in and any progress we have observed.

Annual review: Our guidelines are reviewed annually. Updates could include new and emerging best practices, client feedback, changes in governance or stewardship codes, and our evolving perspectives. For 2024, and after our latest review, we unified our global and UK voting policies into one single voting guidelines document.

The role of our Responsible Investment team

Our Responsible Investment team manages the voting process in collaboration with our investment teams to demonstrate our commitment to thorough, informed and independent voting practices.

Avoids bias: The Responsible Investment team's involvement in voting helps avoid bias, ensuring we adhere to our voting guidelines while considering each company's specific context.

Standard operating procedures: Our Responsible Investment team follows detailed standard operating procedures that drive accuracy and consistency in our voting process. This includes monthly reviews of all voting activity for timeliness and accuracy.

Client alignment: The team takes extra care to listen to clients, consider the wider market context, and apply best practice so we can vote in the best interests of our clients.

Unified voting approach

Consistency: We vote all funds in the same way. However, we can also accommodate client-directed votes where required.

Collaboration for best outcomes: Our collaborative approach ensures optimal results for customers and clear, consistent governance messages to the companies we invest in. It also enhances our ability to engage with companies and ask for governance improvements.

Inviting dialogue: To foster dialogue and address governance concerns, we communicate our voting rationale to companies in actively managed funds, especially when abstaining or opposing management. This year, we sent 169 letters to companies explaining our voting rationale and inviting dialogue.

Controls for accuracy: We have established controls to ensure votes align with our voting guidelines, and that we submit them promptly. We address and investigate late submissions, which may occur due to unforeseen circumstances such as late ballots.

Detailed internal discussions

Ensuring views are reflected: Our approach requires comprehensive internal discussions to reflect the perspectives of our fund managers, Responsible Investment team, subject matter experts and clients in our voting decisions.

Time for debate on controversial votes: We highlight contentious votes, allowing time for discussion with investment teams. This category includes new companies or issues, high-profile issues, media-covered topics, or situations of concern.

Visibility and engagement for our fund managers: We circulate our voting recommendations for applicable funds to investment teams, fostering transparency and inviting further challenge and debate before a final decision is made. This approach does not apply to quantitative equity tilt funds and funds passively tracking an index.

Resolving differences: We resolve differing opinions through discussion, escalating unresolved matters or votes that may have reputational impacts on our business to our Head of Equities or to our Chief Investment Officer as appropriate.

Key topics

Remuneration: As highlighted on page 13, we vote against a significant number of management resolutions to approve executive pay. This is driven by our Voting Guidelines which set high expectations around performance-based incentives, vesting periods, exceptional awards and disclosures. You can read more details on page 13 of our Voting Guidelines.

Shareholder resolutions: We also vote in favour of many non-binding resolutions on climate and other matters proposed by shareholders. We will support shareholder resolutions when we believe they are in the best interests of all stakeholders. We generally support resolutions that call for more transparency and we oppose those that we feel are immaterial or onerous. Page 22 of our Voting Guidelines explains this in more detail.

Voting challenges

Despite our commitment to voting on all eligible shares, certain situations may prevent us from doing so. For example:

Shareblocking: In markets where shareblocking applies, companies restrict trading from the voting date until the day after the AGM. We may opt not to vote in these scenarios to retain trading flexibility.

Requiring local Power of Attorney: This persists in specific markets, including parts of Scandinavia, Eastern Europe, North Africa, South America, and occasionally in Belgium, Austria, Portugal and Switzerland. In such cases, voting may not be feasible.

Glass Lewis Viewpoint

The Glass Lewis Viewpoint platform receives votes from our custodians or clients' custodians, applies our custom voting template, and awaits final approval from our Responsible Investment team after a thorough review. While we use Glass Lewis and IVIS for voting information and highlighting controversial items, we do not rely on external voting recommendations. Instead, we apply our custom voting guidelines, internal research, investment perspectives and our review process.

Detailed review and submission: The Responsible Investment team reviews and submits every vote, ensuring we align our decisions with our guidelines.

Annual service review and ad hoc meetings with Glass Lewis: Our discussions centre around emerging issues, service levels, and improving our engagement and voting process. In 2023, this included a significant vote processing error where Glass Lewis cast only a percentage of our eligible votes for a meeting. Glass Lewis identified the cause of the error, and we were satisfied with its remediation.

Enhanced communication: We proactively send voting engagement letters to companies where we vote *against* management, including the rationale for our position. This process is carried out on our behalf by Glass Lewis following submission of a vote. In 2023, our proactive contact triggered several direct responses from companies we had yet to engage with.

Vote rejections investigated in 2023

Although we did not submit any votes incorrectly this year, there were several vote rejections. We investigated all instances and found the rationales satisfactory. For example:

- **Power of Attorney rejections:** Specific markets require POAs to be in place to be eligible to vote. These holdings are comparatively smaller, and completing the paperwork is not always feasible. Examples include Hennes & Mauritz (H&M) and Santander Bank Polska.
- **Late vote rejections:** External factors, including the late release of ballots, research data or last-minute changes to meeting agendas, led to rejections like Prada and OTP Bank.
- **Vote processing error:** Due to the complexities of the voting chain, votes can be rejected at any stage. China Travel International and Li Auto were rejected due to an 'overvote', where the number of shares voted did not match the number the local sub-custodian recorded.

Client-directed voting

By balancing client autonomy with our responsibility as asset managers, we strive to offer flexible voting options while ensuring an informed and prudent approach to corporate governance. As trusted stewards, our goal is to maintain a consistent voting approach, ensuring our voice is heard with clarity and strength. Where possible, we incorporate client viewpoints into our voting guidelines so we can appropriately reflect their preferences in how we vote.

Flexibility for client preferences: Recognising that some clients prefer to exercise their own voting rights, we endeavour to offer flexibility and support for those exploring ways to voice their opinions through their assets.

Collaborative exploration: We are engaged in ongoing dialogues with clients and industry peers, exploring strategies for integrating client perspectives into our voting decisions.

Segregated accounts: Some segregated clients prefer handling their voting rights directly. We can further support this choice by sharing our voting positions and rationales before or after a vote, allowing them to align with us or follow their own policy. While most segregated clients entrust us with their voting responsibilities, some retain the power to override our recommendations. 2022 was the first year a client exercised this right and, throughout 2023, we implemented their voting preferences for their segregated funds.

Pooled funds: Some asset owners wish to vote independently or express their wishes regarding their share of pooled funds. Our comprehensive review in 2021 and 2022 delved into the complexities of implementing split or client-directed voting, recognising the substantial implications for our operations. We continue to monitor market trends and client demand, remaining open to revisiting our current stance if our clients begin to request split voting in pooled funds.

Stock lending

We lend stock across several of our equity and fixed income funds. We require our custodians to recall all stock positions before a vote to ensure we can exercise our full voting power at shareholder meetings. Our Investment Support team investigates issues related to stock lending or recalling. No stock lending issues impacted our voting activities in 2023.

Creditor control in bond holdings

Our significant exposure to secured and highly covenanted bonds places us in a unique position to manage our bond holdings actively. This position often grants us more influence and control, ensuring bond issuers consult us on key changes that affect our investment.

Creditor control: Our bond holdings often give us a level of control, requiring companies to put proposed changes to a bondholder vote.

Distinct from equity holders: Unlike equity holders, our right to vote does not extend to annual shareholder meetings. However, we do hold voting rights on issues impacting our credit holdings.

Extraordinary meetings: Votes on our credit holdings usually occur in extraordinary meetings where issuers ask us to approve specific changes affecting our investment.

Case-by-case approach: Given these meetings' unique nature and financial focus, we approach each situation individually and tailor our decisions to the specific circumstances of each proposal.

Bondholder voting example: Aviva

Aviva actively engaged with certain bondholders during the year to help them ensure their bonds were compliant with newer regulatory standards. We elected to support this process, on the basis that our clients were sufficiently compensated for the changes to the bond's terms and conditions in the form of an appropriate fee.

Regulatory compliance

In our highly regulated environment, we must remain compliant with the laws and regulations in the markets where we operate, adapting to changes that may restrict our ability to do business. Our Compliance team monitors new regulatory activities and assesses their impact on our operations. When we identify changes, we collaborate with our Regulatory Change team and impacted business units to adapt our business practices. These changes range from technical reporting requirements to updates in product, legal, marketing and disclosure standards.

Increasing emphasis on responsible investing regulations

The rising demand for ESG investing has led to significant regulatory attention, especially in Europe, with upcoming regulations in the UK. These regulations aim to increase transparency, enhance consumer protection and reduce mis-selling risks. However, we face challenges with the divergence of regulations across different jurisdictions, each with unique governance and labelling frameworks, definitions and taxonomies.

Implementing changes in 2023

In 2023, we proactively implemented changes to comply with new and existing ESG regulations. Our operations in the UK, Ireland, Norway, Sweden, Finland, Switzerland, Singapore and Germany make us subject to both EU/EEA and UK regulations, including the upcoming EU Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy, UK Task Force on Climate-related Financial Disclosures (TCFD), UK Consumer Duty, and UK Sustainable Disclosure Regulation (SDR).

Integrating technology and collaborating with regulators

To comply with SFDR, TCFD and Consumer Duty requirements, we continue to enhance technology solutions to meet disclosure requirements and integrate ESG indicators and climate metrics into our data and decision-making processes. We have also continued to update our fund-level regulatory documentation. We actively support industry bodies and regulators, contributing to discussions like the UK's Sustainability Disclosure Requirements (SDR) through our membership of the Disclosures and Labels Advisory Group (DLAG).

Managing our business

Environmental responsibility in our operations

As responsible investors, we apply the same sustainability principles to our operations that we expect from our investments. Through our parent company, Royal London Group, we manage our operational climate risks through efficient management of our offices and engaging with our value chain.

Our climate and environmental initiatives: Our focus at Royal London is on reducing our environmental impact and promoting sustainable practices:

- **Net zero target:** Aiming for net zero in our direct operational emissions by 2030 and in our value chain emissions by 2050 with a 50% reduction by 2030.
- **Reducing paper use:** Internal paper use to be cut by 90% and external paper to be cut by 50%.
- **Energy-efficient workplace:** During 2023, we completed the fit-out of our new London office at 80 Fenchurch Street which embedded sustainability from the outset. As well as the base build achieving BREEAM Excellent, we incorporated a range of sustainability initiatives from circular design principles to energy-efficient processes. A key element of our circular approach was re-purposing existing furniture from other Royal London offices and purchasing second-hand, breathing new life into items that otherwise would have gone to waste.
- **Employee commuting and homeworking:** To help improve the quality of our homeworking and colleague commuting emissions data, over 1,000 colleagues completed a survey to help us understand the methods of transport they use for commuting, how frequently they travel and their levels of energy consumption whilst homeworking. We continue to work with our partner Mobilityways on our net zero roadmap, including plans to relaunch our car share scheme.
- **Supply chain:** working with supplier managers and stakeholders across Royal London, we have sought to understand supplier targets and performance. By engaging with suppliers during 2023, we have been able to support and challenge them on emissions reduction initiatives and their path to net zero.
- **Colleague engagement:** We held a week-long sustainability summit in November 2023 focused on how everyone in Royal London can play their part in moving fairly to a sustainable world. Over 370 colleagues joined webinars and Q&As across the week with internal and external speakers covering a range of topics related to climate, nature and biodiversity.

Further details on these initiatives are available in the RLMIS Annual Report and Accounts.

Responsible supplier management

Our commitment to ethical and responsible business extends to our procurement and third-party relationships. We adhere to a comprehensive Procurement and Third-Party Management Policy, ensuring rigorous oversight of our supplier interactions.

Due diligence and supplier selection: During supplier selection, we conduct thorough due diligence, focusing on risks and their approaches to critical issues such as modern slavery, diversity and inclusion, and ethical employee treatment. Before entering contracts, we ask suppliers to agree to our Supplier Code of Conduct. This requirement establishes our expectations of suppliers, aligned with the Universal Declaration on Human Rights, the ILO Core Conventions on Labour Standards, and the United Nations Sustainable Development Goals.

Ongoing supplier engagement: We require suppliers to disclose information on modern slavery throughout the contract duration. Additionally, we actively review and challenge their practices in areas like living wage adherence and gender pay gap reporting, tailored to the nature of their work for us. We share our policies (Health and Safety, Anti-Bribery, and others) and expectations with our suppliers, appropriately assessing their practices to ensure alignment with our standards.

Our approach to responsible investment *continued*

Advancing diversity and inclusion

We have continued to enhance our diversity and inclusion (D&I) strategy, advancing the Royal London Group's three-year positive action plan. We remain focused on achieving our commitments under the HM Treasury Women in Finance Charter and the Race at Work Charter, and in 2023 we aligned our plan to the Association of British Insurance's newly published D&I Blueprint. We also retained our 'level 2' status as a Disability Confident employer.

Addressing the gender pay gap: Our annual Gender Pay Gap Report provides an overview of our gaps and how we are working to reduce these across Royal London Group and Royal London Asset Management. We recognise there is more to do, but we are committed to positive actions to increase female representation, particularly in senior roles, which we believe will help to close our gender pay gaps.

Inclusion networks:

We encourage all colleagues to join our colleague-led inclusion networks, to demonstrate their support for our inclusive culture. Through a programme of events and activities, our networks collaborate to maximise the impact they make across our business. With over 1,000 members, they help to foster active support and allyship among colleagues.

Maintaining transparency: We report our D&I progress through external publications:

- Annual Report and Accounts
- Gender Pay Gap annual reporting – you can read our 2022 report here and our 2023 report here
- HMT Women in Finance annual reporting – you can read our 2023 update here.

Maintaining strong governance

Organisational structure: As a wholly owned indirect subsidiary of The Royal London Mutual Insurance Society (RLMIS) and part of the Royal London Group, Royal London Asset Management Limited has a dedicated board which comprises two independent non-executive directors, one non-executive director from Royal London and four executive directors. Our Board delegates specific responsibilities to the Royal London Asset Management Executive Committee (Exco).

Collaborative oversight: Regular meetings facilitate both collaboration and oversight of different business units within the Royal London Group. These include our Group Executive Committee, Investment Strategy Committee and Group Sustainability Oversight Committee, which include senior executive members from Royal London Asset Management and other Group business units.

Regulatory compliance and senior management: The Financial Conduct Authority regulates our activities, including compliance with the Senior Managers Certification Regime. Our Chief Investment Officer, a regulated Senior Management Function, is accountable for our responsible investment function. He is a member of the Royal London Asset Management Exco and chairs – and is supported by – the Investment Committee that oversees investment issues.

Responsible investment oversight: Our Head of Responsible Investment is a member of the Investment Committee, contributing papers for discussion, and regularly attends the Customer and Product Committee. Our Stewardship and Responsible Investment Report receives annual approval from the Board of Royal London Asset Management. Additionally, our proxy voting guidelines undergo annual review by the Royal London Asset Management Investment Committee.

Our four inclusion networks

Women's Network

Our Women's Network helps support career development for all colleagues, with the intention to encourage everyone in Royal London to inspire women to aim higher, learn more and achieve more.

REACH

The REACH (Race, Ethnicity and Cultural Heritage) network aims to provide a space for all ethnicities to connect, share experiences and take action in the promotion of race equality and diversity, with the explicit aim to educate, engage and empower.

PRIDE

In celebration of all our LGBT+ people and allies, we created a community to help recognise and empower our LGBT+ people, both inside and outside of the workplace.

DAWN

DAWN (Disability AWareness Network, including neurodiversity) is our network which is focused on enabling disability confidence at Royal London.

Supporting our clients

Royal London Mutual Insurance Society (RLMIS): RLMIS is our parent company and largest client. We manage approximately £106bn of RLMIS assets, collaborating closely with the Group Investment Office to align our investment strategy and responsible investment activities with their needs. Many RLMIS customers invest in our funds, including the Governed Range which is managed by our Multi Asset team, and we are fully committed to helping them understand how we integrate ESG factors in their pensions. Further insights into RLMIS investment strategy and governance are detailed in its Annual Report and Accounts.

Institutional clients: Originally an in-house insurance asset manager, we have evolved to serve diverse institutional clients. Our offerings include pooled investment products across major asset classes and bespoke segregated solutions. With £27.5bn managed for about 280 external institutional clients, including local authorities, charities, universities, corporate pension schemes and insurance companies in the UK and, increasingly, abroad, we focus on understanding each client's stewardship and responsible investing needs. We conduct client interviews, surveys and feedback sessions so we can refine our approach based on their feedback.

Wholesale clients: We manage approximately £27bn in assets on behalf of wholesale discretionary and advisory firms. Across Royal London, we work closely with independent financial advisers, wealth managers and stockbrokers to ensure our investments align with investor goals, risk attitudes and broader expectations about their experience. We offer solutions ranging from multi asset funds to funds focusing on specific market dynamics, with accessible investment information and risk mapping tools. Engaging with wholesale clients on responsible investing is a growing focus, with educational webinars and sponsored sessions enhancing their understanding of our approach.

International clients: While our roots are firmly in the UK, we are actively expanding internationally, with clients in Australia, France, Denmark, South Africa and Japan. To support the growth of our international client base, we have registered our funds in strategic locations including Switzerland, Singapore, Germany and the Nordic region.

Performance management and reward

Aligning with client interests: As a member-owned business, Royal London Group's focus extends beyond short-term gains to fostering long-term benefits for our members. This philosophy shapes our approach to remuneration for all our people, including fund managers and analysts, linking it closely to delivering better customer outcomes, investment performance and revenue generation. Our 'Business Scorecard' incorporates a broad range of metrics to assess business performance comprehensively.

Responsible investment and remuneration: Responsible investment is a cornerstone of our strategy. We monitor progress through our Business Scorecard to influence directly the calculation of discretionary bonuses for all colleagues based on year-end results. We assess our team's performance on their achievements and how they align with Royal London values and contribute to good customer outcomes.

ESG integration in performance evaluation: We expect our investment professionals to continuously assess and document the impact of ESG factors on investment risk as part of their desk procedures. Understanding and addressing the sustainability impacts of investment decisions is crucial, especially in aligning with each strategy's objectives. Our remuneration structure reinforces this approach, incentivising investment specialists and senior colleagues on long-term fund performance, and considering ESG risks and opportunities within each fund's risk framework. We have designed our remuneration approach to motivate our team to achieve the best outcomes for our customers, balancing both short- and long-term objectives with a focus on ESG considerations.

Enhancing ESG through training and collaboration

Our investment teams benefit from stewardship and responsible investment training that blends on-the-job training with formal sessions.

Learning by doing: Regular interactions between our investment teams and ESG specialists provide insights to help identify and address ESG issues. These interactions include practical guidance on pertinent questions for company management and spotting potential ESG risks. Additionally, we routinely conduct ESG portfolio reviews to discuss specific risks or opportunities within funds so investment teams can consider their financial implications.

Workshops and specialised training: We also provide workshops and training sessions with our specialist research providers. Our Responsible Investment team complements these sessions with internal training. A key focus of our ongoing training agenda is climate risk and the journey towards net zero, ensuring we equip our teams with the skills and knowledge to navigate these critical areas.

Strengthening risk management

Risk management framework: This core aspect of our business operations establishes clear organisational accountability from the Board to committees, functions and individuals, including policies and procedures. The Royal London Asset Management Holdings Board delegates oversight of this framework to the Risk and Capital Committee, ensuring we safeguard our stakeholders' and clients' interests through effective risk and capital management.

Holistic risk management system: We leverage the Royal London Group Risk Management System (RMS) to manage risks within our defined risk appetite. This system offers a comprehensive approach to identifying, measuring, managing, monitoring, and reporting our distinct risks. Key components of the RMS, including risk strategy, appetite and policies, provide the framework for our business operations. Risk control self-assessments and risk event reporting are instrumental in effectively managing our risks.

Our approach to responsible investment *continued*

Independent investment risk monitoring: The Investment Risk team independently monitors portfolio risk exposures. Portfolio managers are responsible for responding to market events, including portfolio allocation and strategy adjustments to align with risk tolerance levels and investment objectives.

Evolving ESG risk management: Recognising the dynamic nature of responsible investing, we continuously refine our approach to ESG risk management. In 2023 we enhanced our strategic and investment ESG risk management:

- Engaged in our Emerging Risks Forum to review new ESG risks
- Published our third TCFD report detailing our approach to climate risk management
- Enhanced data and technology systems for better access to ESG data and analysis
- Improved controls and verification processes for ESG information in client and regulatory reporting
- Collaborated with external specialists to review our responsible investment operating model, ensuring alignment with market ESG best practice.

Proactive monitoring and emerging risks: Emerging and Strategic risks have been reviewed during 2023 through Strategic and Emerging Risks reviews conducted at Executive Committee level. Themes monitored and reviewed include:

- **Climate risk:** Monitoring and managing climate risk has remained an ongoing priority for us. The aim of doing this is to mitigate our exposure to the financial, strategic, reputational, regulatory and commercial risks arising from climate change through embedding climate risk into our risk management system, creating a climate transition plan and agreeing and monitoring key metrics. We have completed a programme of work to embed responsible investment into our business. This will help us manage reputational and commercial risks by ensuring we have a clear responsible investment strategy and product framework, as well as the right resources and operating model to meet client needs. A more detailed account of climate risk management can be found in our Climate Risk Policy and Climate (TCFD) Report.
- **International regulatory divergence:** Regulatory divergence, including those covering ESG aspects, remains a challenge. In respect of ESG regulation, requirements vary by individual jurisdictions, even within the EU where each country is taking a different approach, with additional layering of reporting and marketing requirements being introduced. We continue to monitor developments through our legal and regulatory horizon scanning, and working with regulators and industry bodies to input into and help shape responsible investment regulation for the benefit of the consumer.
- **Artificial intelligence (AI):** Data is significant currency, and can be powerful in assessing and determining alpha opportunities, screening for client opportunities or helping support responsible investment implementation. The availability of open-source AI systems which can process information expediently, write content and hunt for opportunities, has the potential to challenge existing norms and operating models. We continue to work on new technological developments, evolve our technology architecture, and monitor and keep abreast of new technology, data sources and data that we perceive have benefit to our business or to our clients.
- **Personalisation and customisation:** The market is increasingly seeing demands for more personalised and customised needs, particularly in relation to responsible investment considerations, inclusive of climate criteria. There is a growth in demand for individual, separately managed, accounts and desire for a more tailored and customised solution. Efficiencies and cost benefits may erode with the advent of new technology that can support customisation and operational simplicity at scale. We continue to monitor developments and evaluate opportunities.
- **Customer outcomes:** We define customer outcomes risk as the risk of any action that leads to client detriment or has an adverse effect on market stability or effective competition. We mitigate customer outcomes risk through offering predominantly non-complex products and services, and not offering guarantees or giving advice on the suitability of products. Propositions and marketing materials are reviewed to ensure these continue to address client needs and are clearly communicated. Senior management apply the 'Spirit of Royal London' values to ensure that good outcomes are delivered to clients and promote a culture in which there is no room for misconduct. As part of the Consumer Duty, we have further enhanced our review and consideration of good outcomes in line with our framework across the FCA's four outcomes. The boards will use this as part of their annual assessment and agreement of any recommended actions.

Proactively managing conflicts of interest

We are dedicated to maintaining the highest standards of professionalism, integrity, and governance in our business and meeting our customers' needs. We underpin our commitment with a conflict of interest policy that we require all colleagues to understand and follow.

Oversight and responsibility: Our Board oversees the effective management of any conflicts of interest, ensuring systems, controls and procedures are adequate for identifying, managing and monitoring conflicts. Senior management is responsible for raising colleague awareness and ensuring they adhere to relevant aspects of the policy.

Accountability and reporting: The Board of Royal London Asset Management reports to the RLMIS Board, which oversees risk management within the Royal London Group, including the effectiveness of internal controls related to conflicts of interest. Non-compliance with our policies can lead to disciplinary actions.

Identifying potential conflicts: Potential conflicts may arise in situations where there is a conflict between:

- Our interests (as a legal entity or as an individual connected to the Royal London Group) and our duty to our clients; or
- The interests of two or more of our clients to whom we owe a fiduciary duty in each case.

Our Conflicts of Interest Policy offers guidance on managing conflicts in various scenarios, including trade execution, access to inside information, management of client accounts, confidentiality, outside activities and inducements, among others.

Proactive conflict management: We take all reasonable steps to identify and manage conflicts, ensuring we always prioritise our clients' interests. The business maintains a Conflicts of Interest Register, and we present quarterly updates to the Royal London Asset Management Business Risk Committee.

Disclosure and transparency: In cases where conflicts are unavoidable, we aim for detailed disclosure to the client, allowing them to accept the conflict or terminate the activity with relevant information. Our disclosure includes the nature and sources of the conflict.

Policy review and accessibility: The Risk and Compliance team regularly updates the policy. For detailed information on our approach to managing conflicts of interest, our Conflicts of Interest Disclosure Statement is available on our website.

No conflicts of interest: In 2023, we encountered no new material conflicts requiring disclosure.

Handling inside information

Avoiding insider status: Our general approach is to avoid companies classifying us as insiders, which limits our ability to trade. However, there are instances where we choose to receive inside information to enhance our discussions with company management or boards.

Procedure for managing inside information: When we opt to receive inside information, we immediately add the involved company to our Restricted Stock List. We apply this action to our trading systems, preventing all fund managers from trading the security. We lift the restriction only after the information becomes public, with approval from a member of our Exco.

Involuntary insider situations: Sometimes, we may become insiders involuntarily or inadvertently during company interactions. In such cases where we feel the information we received is not available in the public domain, our Market Conduct Policy mandates that we add the company to our Restricted Stock List.

Training and compliance support: Our colleagues receive training and support from our Compliance Advisory and Legal teams to identify and understand the nature of inside information. In ambiguous cases, we exercise caution and add the company to the Restricted Stock List to maintain the integrity of our trading practices.

Disclosure and transparency

We are dedicated to transparency and openness in our stewardship and responsible investment approach. Regular disclosures include our Principles for Responsible Investment (PRI) Assessment results and voting and engagement activities, shared through this report, our annual Climate Report (TCFD), blog posts, articles, webinars and press comments.

Online access to our policies and voting decisions

Our Investment Committee regularly reviews our key policies, such as the Responsible Investment Policy and Climate Risk Policy, published on our website. Additionally, we maintain a detailed online database that discloses our proxy votes, providing insights into our voting decisions.

Client engagement and reporting

Where relevant, our clients receive regular reports detailing our responsible investment and stewardship activities. We have also started producing enhanced ESG factsheets for some funds. These include voting and engagement data, as well as detailed climate emissions information. From June 2023, we have provided fund-level TCFD disclosures for UK registered funds. We actively engage with clients to discuss ESG trends and are always ready to address specific queries regarding our stewardship and responsible investment activities.

Corporate policies

We have policies and/or procedures in place regarding:

- Proxy voting
- ESG integration
- Engagement
- Controversial Weapons
- Conflicts of interest
- Personal account dealing
- Execution and allocation; and
- Gifts and benefits.

Our Risk and Compliance team maintains our compliance policies, which are reviewed periodically by Compliance and Internal Audit.

Continuous improvement

We are committed to enhancing the scope, depth and quality of our stewardship and responsible investment activities. This commitment extends to investing in personnel, training, and our ESG tools and analysis capabilities.

Review and approval of this report

The Royal London Asset Management Investment Committee, Executive Committee and Board reviewed and approved this Stewardship and Responsible Investment Report as a fair and balanced reflection of our stewardship and responsible investment approach. The Board has also considered the effectiveness of our stewardship activities and areas of improvement.

Appendices

Appendix 1: Record of company engagement 2023

A2A SpA
A2Dominion Housing Group Ltd
AA Bond Co Ltd
AA Ltd/United Kingdom
ABB Ltd
Accent Group Ltd/LN
Acerinox SA
Adobe Inc
AerCap Holdings NV
Aggregated Micro Power Infrastructure 2 Plc
Agilent Technologies Inc
AIA Group Ltd
AJ Bell PLC
Aker BP ASA
Akzo Nobel NV
Alpha Financial Markets Consulting Plc
Alphabet Inc
Amazon.com Inc
AMG Critical Materials NV
Anchor Hanover Group
Anglian Water Group Ltd
Anglo American PLC
Antofagasta PLC
AP Moller – Maersk A/S
APA Group
Applied Materials Inc
Aptitude Software Group PLC
Aptiv PLC
Arkema SA
Aroundtown SA
Ashmore Group PLC
Ashtead Group PLC
ASM International NV
Assa Abloy AB
Associated British Foods PLC
Aster Group Ltd
Aston Martin Lagonda Global Holdings PLC
AstraZeneca PLC
AT&T Inc
Auction Technology Group PLC
Autodesk Inc
Aviva PLC
Avon Protection PLC
B&M European Value Retail SA
Babcock International Group PLC
BAE Systems PLC
Bain Capital LP
Bakkafrost P/F
Balfour Beatty PLC
Ball Corp
Banco Santander SA
Bandai Namco Holdings Inc
Bank Central Asia Tbk PT
Bank Mandiri Persero Tbk PT
Bank Rakyat Indonesia Persero Tbk PT
Barclays PLC
Barratt Developments PLC
Bayport Management Ltd
Bazalgette Finance Plc
Beazley PLC
Berkeley Group Holdings PLC
Beyond Housing Ltd
BHP Group Ltd
Blackstone Property Partners Europe Holdings Sarl
Bloomsbury Publishing PLC
BNP Paribas SA
Boliden AB
BP PLC
BPHA Ltd
Brenntag SE
Bridgestone Corp
British American Tobacco PLC
British Land Co PLC/The
Bromford Housing Group Ltd
BT Group PLC
Bucher Industries AG
Bunzl PLC
Buzzi SpA
Canadian National Railway Co
Carnival PLC
Cemex SAB de CV
Centrica PLC
Cerillion PLC
Chemring Group PLC
Chesnara PLC
Chevron Corp
China Everbright Environment Group Ltd
Chocoladefabriken Lindt & Spruengli AG
CHP Software and Consulting Ltd
Churchill China PLC
Citigroup Inc
City Pub Group PLC/The
Clarion Housing Group Ltd
Clarkson PLC
Close Brothers Group PLC
CLP Holdings Ltd
Coats Group PLC
Coca-Cola Co/The
Commonwealth Bank of Australia
Compass Group PLC
Computacenter PLC
ConocoPhillips
ConvaTec Group PLC
Cooperatieve Rabobank UA
Coventry Building Society
Covestro AG
CPUK Finance Ltd
Craneware PLC
Cranswick PLC
Credit Agricole Group
CRH PLC
Croda International PLC
CTS Eventim AG & Co KGaA
Currys PLC
DCC PLC
De La Rue PLC
Delta Air Lines Inc
Derwent London PLC
Deutsche Lufthansa AG
Deutsche Post AG
DFDS A/S
Diageo PLC
Diploma PLC
Direct Line Insurance Group PLC
DiscoverIE Group PLC

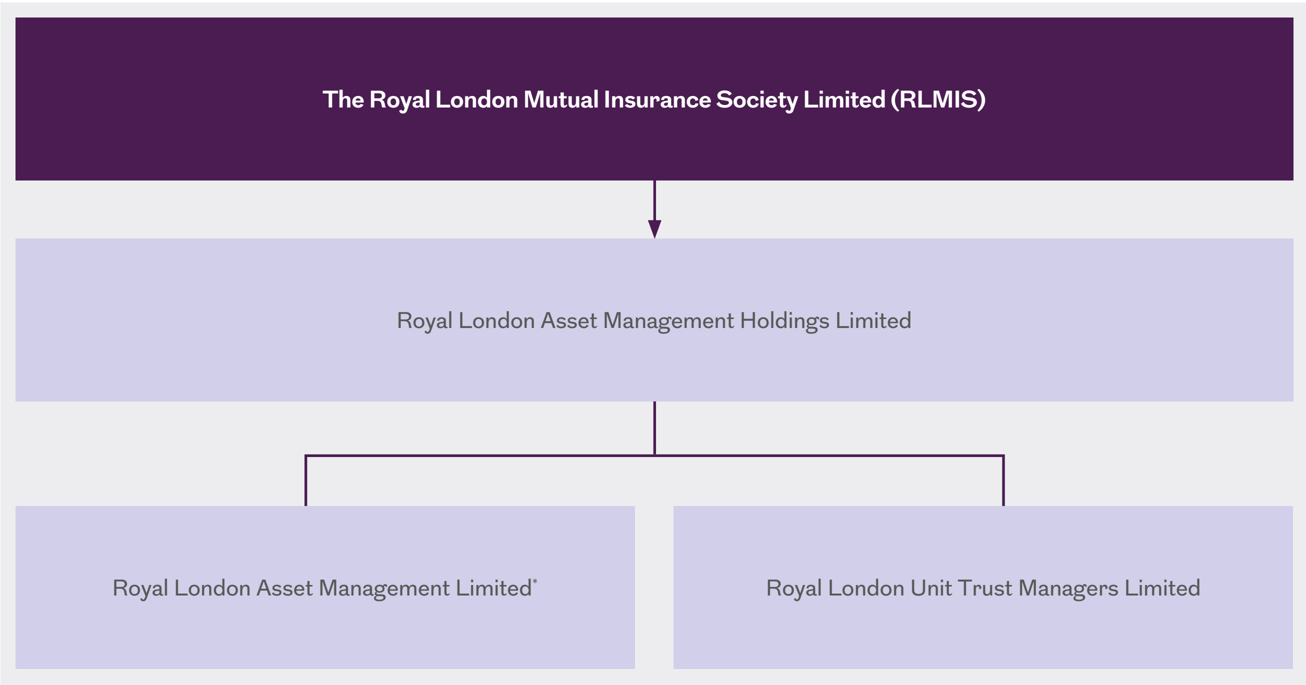
Drax Group PLC
DS Smith PLC
DSM BV
DSV A/S
Dunelm Group PLC
E.Merck KG
E.ON SE
easyJet PLC
Eckoh PLC
EDP – Energias de Portugal SA
EDP Renovaveis SA
Electricite de France SA
Eli Lilly & Co
Elia Group SA/NV
Elisa OYJ
ELKEM ASA
EMS-Chemie Holding AG
Enagas SA
EnBW Energie Baden-Wuerttemberg AG
Ence Energia y Celulosa SA
Endesa SA
Enea SA
EnQuest PLC
Equinor ASA
Ergomed PLC
Eskmuir Properties Ltd
Essity AB
Eversholt Funding PLC
Evonik Industries AG
Expeditors International of Washington Inc
Experian PLC
Exxon Mobil Corp
Ferguson PLC
Ferrari NV
Ferrexpo PLC
Finnair Oyj
First Abu Dhabi Bank PJSC
Firstgroup PLC
Flutter Entertainment PLC
Ford Motor Co
Ford Otomotiv Sanayi AS
Future PLC
Galp Energia SGPS SA
Games Workshop Group PLC
Gatwick Funding Ltd
GEA Group AG
Geberit AG
General Electric Co
General Motors Co
Gentoo Group Ltd
Genus PLC
GFL Environmental Inc
Givaudan SA
Glas Cymru Holdings Cyfyngedig
Glencore PLC
GlobalData PLC
Go-Ahead Group Ltd/The
Grafton Group PLC
Granges AB
Greensquareaccord Ltd
Greggs PLC
Grosvenor Group Ltd
GSK PLC
Guinness Partnership Ltd/The
Haci Omer Sabanci Holding AS
Hapag-Lloyd AG
Hastoe Housing Association Ltd
Hays PLC
HDF UK Holdings Ltd
HDFC Bank Ltd
Heathrow Funding Ltd
Heidelberg Materials AG
Hera SpA
Hexagon Housing Association Ltd
Hikma Pharmaceuticals PLC
Hill & Smith PLC
Hindalco Industries Ltd
Holmen AB
Home Group Ltd
Housing & Care 21
Howden Joinery Group PLC
HSBC Holdings PLC
Hyde Housing Association Ltd
Hyundai Industrial Co. Ltd
Iberdrola SA
IG Group Holdings PLC
IMCD NV
Imerys SA
IMI PLC
Imperial Brands PLC
Inchcape PLC
Informa PLC
Inspecs Group PLC
IntegraFin Holdings PLC
InterContinental Hotels Group PLC
International Consolidated Airlines Group SA
International Distributions Services PLC
Intertek Group PLC
Intu Debenture PLC
Intuit Inc
Intuitive Surgical Inc
IQVIA Holdings Inc
Ithaca Energy PLC
J D Wetherspoon PLC
J Sainsbury PLC
Jaguar Land Rover Automotive PLC
James Fisher & Sons PLC
Jastrzebska Spolka Weglowa SA
JD Sports Fashion PLC
John Lewis Partnership PLC
Johnson & Johnson
Johnson Controls International plc
Johnson Matthey PLC
JPMorgan Chase & Co
Kamigumi Co Ltd
KB Financial Group Inc
Kemble Water Holdings Ltd
Kemira OYJ
Kerry Group PLC
Kin & Carta PLC
Kingfisher PLC
Knorr-Bremse AG
Koninklijke Ahold Delhaize NV
Kosmos Energy Ltd
Kubota Corp
Lancashire Holdings Ltd
Land Securities Group PLC
LANXESS AG
Leeds Building Society
Legal & General Group PLC
Linde PLC

Appendices *continued*

Liontrust Asset Management PLC
Lithia Motors Inc
Livewest Homes Ltd
Lloyds Banking Group PLC
Logicor 2019-1 UK PLC
London Stock Exchange Group PLC
Longhurst Group Ltd
L'Oreal SA
LVMH Moet Hennessy Louis Vuitton SE
Marubeni Corp
Mash Holdings Ltd
Mattioli Woods PLC
Medica Group PLC
MEG Energy Corp
Melrose Industries PLC
MercadoLibre Inc
Metsa Board OYJ
Micro Focus International PLC
Microsoft Corp
Midland Heart Ltd
Mitchells & Butlers PLC
Mobico Group PLC
Mondi PLC
Moonpig Group PLC
Morgan Stanley
Motability Operations Group PLC
Mowi ASA
Mytilineos SA
National Australia Bank Ltd
National Grid PLC
Nats En Route PLC
Natwest Group PLC
Neste Oyj
Nestle SA
NewRiver REIT PLC
Next PLC
Ninety One PLC
Nordea Bank Abp
Norsk Hydro ASA
Northern Powergrid Yorkshire PLC
Northumbrian Water Group Ltd
Notting Hill Genesis
Novo Nordisk A/S
Octagon Healthcare Group Ltd
OneSavings Bank PLC
Orbit Group Ltd
ORLEN SA
Orron Energy AB
Orsted AS
Otsuka Corp
PACCAR Inc
Paragon Asra Housing Ltd
Parkland Corp
Peabody Trust
Pearson PLC
Peel Land & Property Investments PLC
Pennaf Ltd
Pennon Group PLC
Phillips 66
Places for People Group Ltd
Porvair PLC
Power Assets Holdings Ltd
Primerica Inc
Procter & Gamble Co/The
Prologis Inc
Prudential PLC
Qatar National Bank QPSC
QBE Insurance Group Ltd
Quadgas Holdings Topco Ltd
Rac Group Holdings Ltd
Range Resources Corp
Redeia Corp SA
Reliance Steel & Aluminum Co
RELX PLC
Rentokil Initial PLC
Rhi Magnesita NV
Rio Tinto PLC
Riverside Group Ltd/The
Roche Holding AG
Rockwool A/S
Rolls-Royce Holdings PLC
Rubis SCA
RWE AG
Ryanair Holdings PLC
Sabre Insurance Group PLC
Safestore Holdings PLC
Safran SA
Sage Group PLC/The
Sanctuary Housing Association
Sandvik AB
Sanwa Holdings Corp
Savills PLC
Saxon Weald Homes Ltd
Schneider Electric SE
Segro PLC
Serco Group PLC
Severn Trent PLC
Shell PLC
Shimano Inc
Siam Cement PCL/The
Siemens AG
Siemens Energy AG
Skipton Building Society
Smiths Group PLC
Smurfit Kappa Group PLC
Snam SpA
Solvay SA
Southern Water Capital Ltd
Spire Healthcare Group PLC
Spirent Communications PLC
SSE PLC
SSP Group Plc
Standard Chartered PLC
Steel Dynamics Inc
STERIS PLC
Stonewater Ltd
Stora Enso OYJ
STV Group PLC
Suez SACA
Sumitomo Mitsui Financial Group Inc
Suncor Energy Inc
Sunoco LP
Sylvamo Corp
Symrise AG
Talos Energy Inc
Tate & Lyle PLC
Tatton Asset Management PLC
Taylor Wimpey PLC
TBC Bank Group PLC
TE Connectivity Ltd
Telecom Plus PLC
Telefonica SA

Tenaris SA
Terna – Rete Elettrica Nazionale
Tesco PLC
Texas Instruments Inc
Thames Valley Housing Association Ltd
Thermo Fisher Scientific Inc
Thor Industries Inc
Together Housing Group Ltd
TotalEnergies SE
Tracsis PLC
Trane Technologies plc
Treatt PLC
Trex Co Inc
Tsakos Energy Navigation Limited
TUI AG
Tullow Oil PLC
Turk Hava Yollari AO
UBS Group AG
UK Power Networks Holdings Ltd
Umicore SA
Unilever PLC
United Utilities Group PLC
UnitedHealth Group Inc
UPM-Kymmene OYJ
Valero Energy Corp
Vattenfall AB
Veolia Environnement SA
Verbund AG
Verizon Communications Inc
Vermilion Energy Inc
Vesuvius PLC
Victrex PLC
Visa Inc
Vistry Group PLC
Vitesco Technologies Group AG
Vodafone Group PLC
voestalpine AG
Volex PLC
Volkswagen AG
Volvo AB
Walsall Housing Group Ltd
Weir Group PLC/The
Wells Fargo & Co
Wessex Water Ltd
West China Cement Ltd
Wheatley Housing Group Ltd
Whitehaven Coal Ltd
Wizz Air Holdings Plc
Wolters Kluwer NV
XPS Pensions Group PLC
Yara International ASA
Yorkshire Building Society
Yorkshire Water Services Holdings Ltd
YouGov PLC
Tyson Foods Inc

Appendix 2: Ownership structure



* Royal London Asset Management provides discretionary investment management services to third-party segregated mandate clients and a range of UK and Irish domiciled investment funds. The Irish funds comprise a UCITS and ICAV fund, with a management company, FundRock Management Company SA, appointing Royal London Asset Management to provide discretionary investment management services.

Appendix 3: The UK Stewardship Code

Purpose and governance	Page reference	
Purpose, strategy and culture	Foreword – Hans Georgeson	1
	About Royal London Asset Management	2
	Managing our business	95
Governance, resources and incentives	Our approach to responsible investment	91
	Research	17
	ESG integration	42
	Maintaining strong governance	96
	Performance management and reward	97
	Enhancing ESG through training and collaboration	97
Conflicts of interest	Proactively managing conflicts of interest	98
Promoting well-functioning markets	Advocacy	19
	ESG integration	42
	Investor collaboration	92
	Regulatory compliance	95
	Disclosure and transparency	99
Review and assurance	Strengthening risk management	97
	Review and approval of this report	99

Investment approach	Page reference	
Client and beneficiary needs	Engagement themes	21
	Supporting our clients	97
Stewardship, investment and ESG integration	Our approach to responsible investment	91
	Engagement	16
	ESG research	17
	Voting	18
	ESG integration	42
Monitoring managers and service providers	Glass Lewis' viewpoint	94
	Strengthening risk management	97

Engagement	Page reference	
Engagement	Engagement	16
	Our approach: Engagement	91
Collaboration	Investor collaboration	92
Escalation	Strategic and decisive escalation	92

Exercising rights and responsibilities	Page reference	
Exercising rights and responsibilities	Voting	18
	Our approach: Voting	93

Appendix 4: Australia FSC Standard 23 – Principles of Internal Governance and Asset Stewardship

1. Organisation and investment approach	About Royal London Asset Management	2
	Our approach to responsible investment	91
	ESG integration	42
	Performance management and reward	97
	Enhancing ESG through training and collaboration	97
	Appendix 2: Ownership and structure	104
2. Internal governance	Our approach: Engagement	91
	Our approach: Voting	93
	Strengthening risk management	97
	Review and approval of this report	99
	Proactively managing conflicts of interest	98
	Maintaining strong governance	96
3. Asset stewardship	Our approach to responsible investment	9
	Engagement	16
	ESG research	17
	Voting	18
	ESG integration	42
	Our approach: Engagement	91
	Our approach: voting	93

Appendix 5: Japan Stewardship Code

Principle	Page reference	
1. We will incorporate ESG issues into investment analysis and decision-making processes	About Royal London Asset Management	2
	ESG integration	42
2. We will be active owners and incorporate ESG issues into our ownership policies and practices	Our approach to responsible investment	91
	ESG integration	42
	ESG research	17
	Voting	18
	Maintaining strong governance	96
	Supporting our clients	97
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest	Engagement	16
	Our approach: Engagement	91
4. We will promote acceptance and implementation of the Principles within the investment industry	Our approach to responsible investment	91
	Our approach: Engagement	91
	Advocacy	19
5. We will work together to enhance our effectiveness in implementing the Principles	Our approach to responsible investment	91
	Investor collaboration	92
6. We will each report on our activities and progress towards implementing the Principles	Disclosure and transparency	99

Appendix 6: The UN Principles for Responsible Investment (PRI)

Principle	Page reference	
1. We will incorporate ESG issues into investment analysis and decision-making processes	About Royal London Asset Management	2
	ESG integration	42
2. We will be active owners and incorporate ESG issues into our ownership policies and practices	Our approach to responsible investment	91
	ESG integration	42
	ESG research	17
	Voting	18
	Maintaining strong governance	96
	Supporting our clients	97
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest	Engagement	16
	Our approach: Engagement	91
4. We will promote acceptance and implementation of the Principles within the investment industry	Our approach to responsible investment	91
	Our approach: Engagement	91
	Advocacy	19
5. We will work together to enhance our effectiveness in implementing the Principles	Our approach to responsible investment	91
	Investor collaboration	92
6. We will each report on our activities and progress towards implementing the Principles	Disclosure and transparency	99

UN PRI Summary Scorecard 2023

Module	Royal London Asset Management star rating	Median star rating of all reporting signatories	Royal London Asset Management score	Median score of customised peer group*
Policy, governance and strategy	★★★★☆	3	90	82
Direct – Listed equity – Passive quantitative	★★★★★	3	96	69
Direct – Listed equity – Active quantitative	★★★★★	3	92	88
Direct – Listed equity – Active fundamental	★★★★★	4	92	82
Direct – Real estate	★★★★★	3	96	64
Direct – Fixed income – SSA	★★★★☆	3	66	74
Direct – Fixed income – Corporate	★★★★☆	4	86	80
Direct – Fixed income – Securitised	★★★★☆	3	88	72
Confidence building measures	★★★★☆	4	80	80

Source: UN Principles for Responsible Investment

Appendix 7: Glossary

Annual General Meeting (AGM)	A yearly meeting between shareholders and the directors of the company, where shareholders have the opportunity to attend, ask questions and vote either in person or electronically on the items presented.
Asset manager	A financial institution that is responsible for managing financial investments on behalf of asset owners.
Asset owner	An institution (or individual) that owns assets but entrusts day-to-day investment decisions to asset managers, typically supported by detailed mandates and policies.
Assets under management (AUM)	The total of internal assets managed by Royal London Asset Management on behalf of the Royal London Group and external clients.
Carbon equivalent emissions (CO_2e)	The release of greenhouse gases (GHGs) into the atmosphere using the universal unit of measurement to indicate the global warming potential (GWP) of each of the seven greenhouse gases, expressed in terms of the GWP of one unit of carbon dioxide (Source: GHG Protocol).
Carbon footprint	The emissions intensity of an investment portfolio, expressed in tCO_2e/$m invested. Financed emissions is divided by the portfolio value. The resulting indicator measures absolute emissions generated for each dollar invested in the fund.
Climate physical risk	Risks directly or indirectly related to the physical impacts of climate change.
Climate transition risk	Risks related to market adjustments resulting from the transition to a low-carbon economy.
Climate Transition Plan	A transition plan is integral to an entity's overall strategy, setting out its plan to contribute to and prepare for a rapid global transition towards a low GHG-emissions economy in a manner that is consistent with its constitutional documents and the duties of its directors and senior managers. (Source: Transition Plan Taskforce).
Environmental, social and governance (ESG)	Three key aspects of sustainability. Financially material ESG risks and opportunities being embedded into investment and operational decisions.
ESG integration	The systematic, explicit and transparent integration of material ESG considerations into the processes for investment research, analysis and decision-making.
Exclusions	Explicitly prohibit investing in a particular company, sector, business activity, country or region.
Financed emissions	The absolute emissions associated with the investments in the portfolio, expressed in tCO_2e. Emissions are attributed to a portfolio based on the portion of the company's value that the portfolio holds, using Enterprise Value Including Cash (EVIC) for publicly listed corporates.
Global Real Estate Sustainability Benchmark (GRESB)	The annual GRESB survey is recognised as a measure of sustainability performance. It is the leading ESG global benchmark for real estate and infrastructure investments. It is used as a key decision-making tool for investors, asset managers and the wider industry. GRESB assessments are based on seven sustainability aspects, including information on performance indicators, such as energy, GHG emissions, water and waste.
Greenhouse gas (GHG)	The seven gases included in the GHG Protocol include carbon dioxide (CO_2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3). (Source: GHG Protocol).
Mutual	A company owned by its member customers rather than shareholders. A member of a mutual company can vote at its Annual General Meeting.
Net zero	Net zero is achieved when an organisation reduces the majority of its GHG emissions in line with latest climate science, and offsets the remaining hard-to-abate residual emissions using carbon removal credits.

Appendices *continued*

Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in December 2015. Its central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. (Source: UNFCC).
Parker Review	An independent review first commissioned in 2015 to consult on the ethnic diversity of UK boards. The review considers and sets targets on how to improve the ethnic and cultural diversity of UK boards to better reflect their employees and the communities they serve.
ProfitShare	An allocation of part of the Royal London Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.
Renewable energy	Energy derived from natural sources that replenish at a higher rate than they are consumed.
Scope 1, 2 and 3 emissions	Scope 1 - GHG emissions directly resulting from our business activities. For example, from company cars and direct emissions from air conditioning units. Scope 2 - Indirect GHG emissions through our energy consumption. For example, resulting from fossil fuels burned to produce the electricity used to provide heat, light and power technology within our offices. Scope 3 - All other GHG emissions indirectly produced as a result of our business activities. This category includes emissions from our value chain and the entirety of our portfolio emissions.
Shareholder proposal	A formal resolution submitted by a shareholder of a company for consideration and voting at the company AGM or special shareholder meeting.
Stewardship	The responsible allocation, management and oversight of our customers' and clients' money to create long-term value, supporting more sustainable benefits for the economy, the environment and society.
UK Corporate Governance Code (the Code)	A comply-or-explain code of corporate governance principles applicable to all companies with a premium listing on the London Stock Exchange. The UK listing rules require that companies must apply the principles of the Code or explain how their alternative approach upholds high standards of corporate governance.
UK Stewardship Code	The Financial Reporting Council's (FRC) UK Stewardship Code is a voluntary code focusing on improving responsible investment and stewardship disclosure; setting principles for asset owners, asset managers and service providers. Submissions to the Code are annual and assessed by the FRC before the list of successful signatories are published on its website.
Weighted average carbon intensity (WACI)	A portfolio's exposure to carbon-intensive companies, expressed in tCO_2e/\$M revenue. Scope 1 and Scope 2 GHG emissions are divided by companies' revenues, then multiplied based on portfolio weights (the current value of the investment relative to the current portfolio value).
Women in Finance Charter	This is a pledge for gender balance across financial services. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter reflects the government's aspiration to see gender balance at all levels across financial services firms.

Useful links

FRC – UK Stewardship Code 2020

FRC – UK Stewardship Code Signatories

PRI – Definitions and terminology

Royal London Asset Management – Climate Risk Policy

Royal London Asset Management – Conflicts of Interest Disclosure Statement

Royal London Asset Management – Our Views

Royal London Asset Management – Sustainable Finance Disclosure Regulation (SFDR) web page

Royal London Asset Management – Responsible Investment web page

Royal London Asset Management – Sustainable Investing web page

Royal London Asset Management – Responsible Investment Policy

Royal London Asset Management – UK Voting Guidelines 2024

Royal London Asset Management – Voting Records

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