

## Strategy, scrutiny, and sustainable success

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## Responsible investment

**Environmental, Social, and Governance (ESG) has shifted from a hallmark of corporate responsibility to a lightning rod in political discourse. Once seen as common sense, it is now viewed by some as ideologically charged. While critics dismiss ESG as a fad, we believe that its underlying principles – resource efficiency, inclusive growth, and strong governance – remain essential for financial resilience and long-term value creation.**

Amid regulatory scrutiny, political backlash, and calls for accountability, companies are recalibrating their ESG strategies. Many are adopting “greenhushing,” reducing public messaging while continuing sustainability efforts behind the scenes.



**ESG issues remain fundamental to corporate strategy.**



Despite this, ESG issues remain fundamental to corporate strategy, and as ESG integration becomes more mature, the governance processes surrounding it need to keep up. Boards must embed robust disclosure practices, scenario planning, and a clear articulation of ESG's relevance to them.

Asset managers are also adjusting their approach to responsible investment. Rather than treating responsible investment as a marketing tool or a compliance checkbox, firms are being challenged to embed ESG analysis more deeply into investment decisions, voting, and engagement.

Asset owners continue to show robust support for responsible investment. Surveys indicate that a growing majority believe ESG considerations align with fiduciary duty<sup>1</sup>, and sustainable fund assets under management have grown significantly<sup>2</sup>. While net flows into traditional products may outpace sustainable ones, inflows into ESG funds remain positive, underscoring the enduring demand for responsible investment.

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## **Regulatory consolidation: from expansion to alignment**

Regulation is entering a phase of strategic recalibration. In the UK, Sustainability Disclosure Requirements (SDR) are moving from policy to practice, introducing anti-greenwashing rules, investment labels, and enhanced disclosures. Some firms have adopted SDR labels, while others navigate operational challenges. The focus is shifting from prescriptive rules to purposeful regulation – emphasising materiality, decision-useful data, and integration into governance and strategy.

In the EU, the Commission's 'Omnibus' simplification package signals a move from expansion to consolidation. The anticipated SFDR revision aims to clarify product categories and better align with the EU Taxonomy, addressing criticisms of the Article 6/8/9 framework. It's also aiming to ensure alignment with other global regulations to address the burden and cost of regulatory divergence.

Globally, policymakers are asking not just “what should be disclosed?” but “what drives real change?” – demanding better data systems, team upskilling, and proactive regulatory engagement. The challenge for 2026: maintain ambition while navigating a landscape designed for clarity, competitiveness, and credibility.

<sup>1</sup> Voice of the Asset Owner Survey 2025 Quantitative Analysis | Morningstar Indexes <sup>2</sup> Sustainable Investing Funds Beating Traditional Funds in 2025 | Morgan Stanley

## Stewardship in a changing landscape

Regulatory shifts and evolving investor expectations are reshaping shareholder proposals, particularly on environmental and social issues. The 2026 proxy season is set to be one of the most complex in recent years.

Shareholder proposals, particularly those on environmental or social grounds are expected to continue to decline, driven by the SEC guidance broadening the ability of companies to exclude proposals on “ordinary business” and “economic significance” grounds.

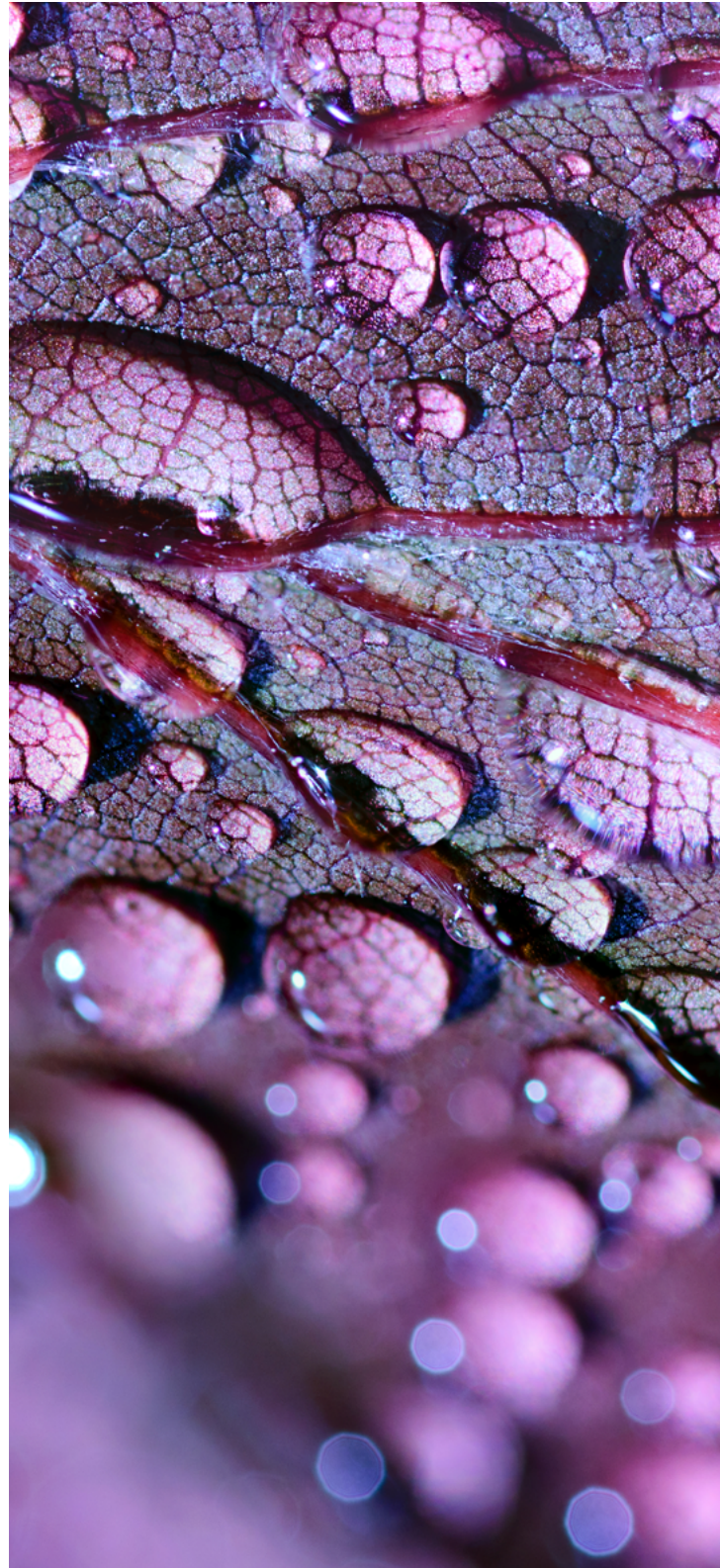
Pass-through voting continues to dominate the rhetoric and while it has its place, care must be taken as this risks fragmenting outcomes and increases unpredictability. These changes underscore a broader move away from ‘one-size-fits-all’ voting, reflecting diverging global priorities and US political headwinds.

At Royal London Asset Management, we remain firm in our positions. We will continue to champion diverse ESG priorities – tailored to company context – and we will strengthen and escalate our voting positions where appropriate.

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Our engagement strategy over the next five years focuses on measurable outcomes and the interconnectedness of ESG issues. Our biennial investor consultation has set the direction for our engagement strategy since 2019 and continues to do so as we refresh our priority engagement themes for 2026-2028.

Our clients have told us that land use, deforestation, and natural capital are important to them. They are prioritising water stewardship and social equity, while nature-related risks become integral to climate strategies. We have reflected on this feedback and will be focusing on the following four themes: Climate, Nature, People, and Governance.

Our Net Zero Stewardship Programme remains a core focus – driving innovation, collaboration, and tangible climate progress. Stewardship will increasingly link climate goals with broader ESG priorities, recognising environmental interdependence.

The next five years are critical for turning commitments into action. By 2030, investor mandates and disclosures will expect both net zero alignment and climate adaptation. Success will be measured not only by emissions reductions but by how companies plan for the future, align assets with climate goals, and strengthen governance. This shift is about more than compliance – it's about credibility and competitiveness in a world where responsible investment is becoming the standard.



### Climate

will focus on our Net Zero Stewardship Programme, Just Transition and Just Adaptation.



### Nature

will cover the Climate Nature Nexus, Just Nature and Land and Water Management.



### People

will focus on Diversity, Financial Inclusion and Human Rights.



### Governance

will focus on Business, Culture and Ethics, Cyber Security, and Sustainable and Ethical AI.

## Looking ahead: priorities for 2026 and beyond

As we enter 2026, responsible investment is moving toward consolidation, maturity, and strategic clarity. ESG regulation is shifting from expansion to simplification, with policymakers prioritising credibility and alignment across markets. Companies and investors are embedding responsible investment and sustainability more deeply into governance and investment processes while navigating political headwinds and evolving disclosure requirements.

Engagement strategies are becoming more outcome-driven, with nature, biodiversity, and social equity rising on the agenda. Governance will continue to be the cornerstone of ESG integration, ensuring ESG ambitions translate into measurable outcomes. In this fast-changing world, resilience, adaptability, and a commitment to long-term value will define leadership in responsible investment.

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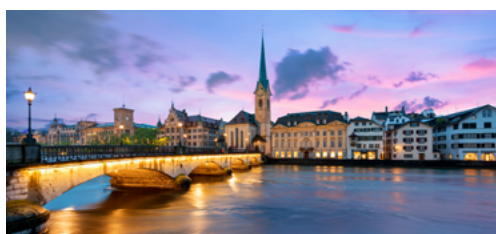
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