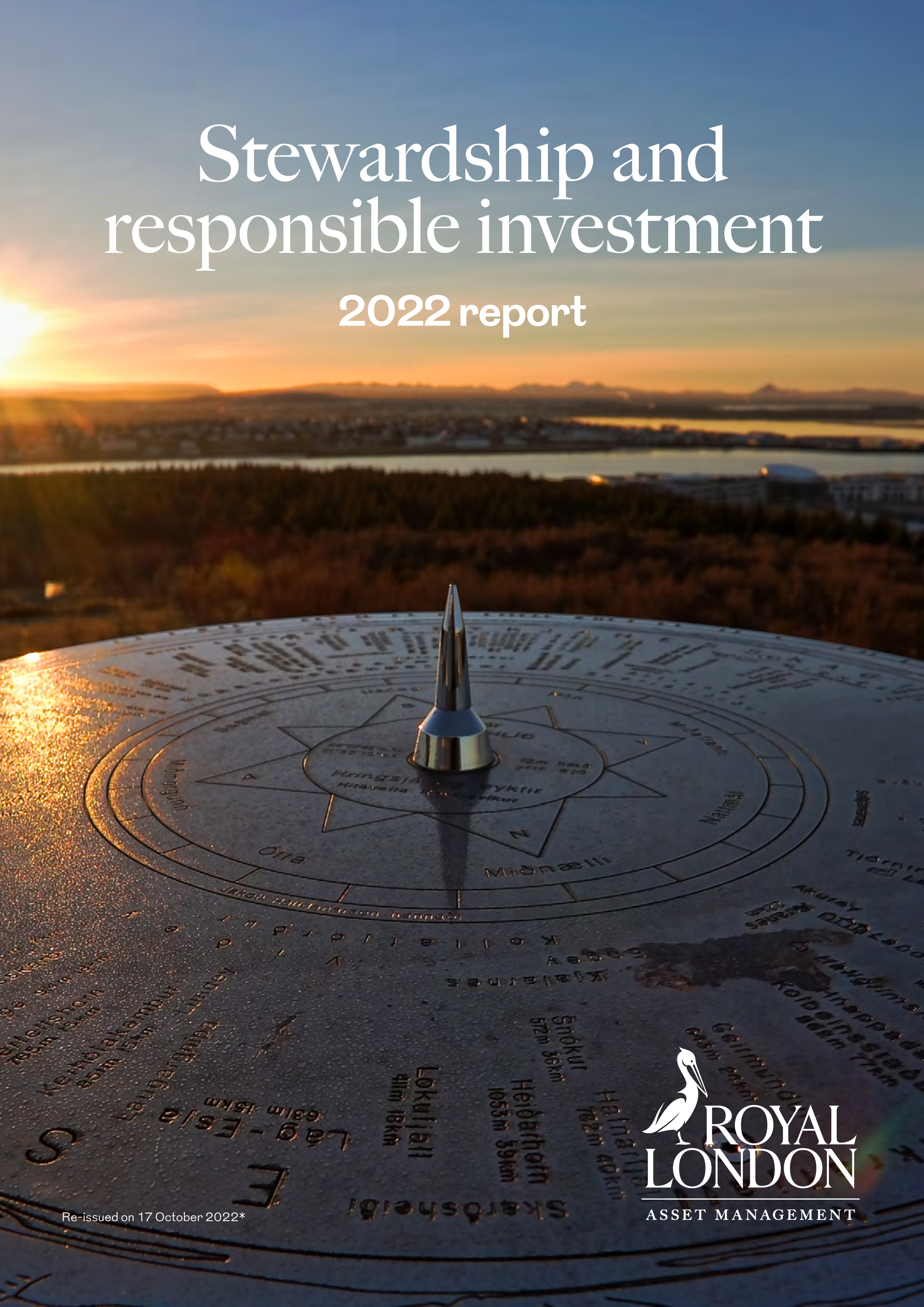
Stewardship and responsible investment

2022 report



Re-issued on 17 October 2022*

ROYAL LONDON
ASSET MANAGEMENT

*This report was re-issued on 17 October 2022 to correct errors on page 29 and 30. The 'take no action' on the voting Summary pie chart was 20.6%, but has been corrected to read 0.6%. The pie chart for Climate votes previously stated that we voted against 44% and abstained on 9%. This has now been corrected to read we voted against 9% and abstained on 44%. We have also clarified that these votes refer to shareholder proposals only within the SHP – Environment category. In addition, the Executive Remuneration votes pie chart omitted 'Take no Action' votes, which have now been included.

Contents

Piers Hillier
Chief Investment Officer

> “It is becoming demonstrably clear to us that the best way to integrate stewardship into investment decision-making is through active management.”

Foreword

I am delighted to introduce the Royal London Asset Management (RLAM) annual Stewardship Report. This report provides an overview of our stewardship and responsible investment activities during 2021.

Last year we saw a further acceleration in interest in stewardship and responsible investment right across the board: not just clients, but government, regulators, and media have really woken up to the importance of this area. We've seen an extension of this with the Russian invasion of Ukraine . This is first and foremost a human tragedy, but from a stewardship point of view, raises questions of how to deal with companies that have Russian exposure, revenues or operations.

As long-term advocates of the importance of responsible investment – partly because of the wider impact on society, but also, in our view, the very real impact this has on investment performance – we are pleased to see this growth in interest. As the rest of the investment industry moves to recognise the value of environmental, social and governance (ESG) data and analysis, it is becoming demonstrably clear to us that the best way to integrate stewardship into investment decision-making is through active management. Finding companies with the 'right' ESG credentials isn't easy. It isn't a case of distilling a range of factors into a single number or rating: it is nuanced and, in our view, it has to be bespoke. That is why in 2021 we moved away from market-weight index-oriented investing, changing a range of previously passive equity funds to become active, quantitatively tilted funds that have a lower carbon intensity and a better ESG profile.

As active managers, we have an important role to play in helping, encouraging and persuading companies to do better. Whether it is asking them to take a leadership role in promoting ethnic diversity in the boardroom, questioning them on their cybersecurity credentials, or objecting to an inappropriate pay package – we can use our position as bondholders and shareholders to effect change. This change is often slow, painstaking and behind the scenes, but it is a vital part of being an active manager and a good steward of our clients' assets.

We also recognise that our ESG credentials are not just about how we invest or engage with companies, but how we run our own business. Clients increasingly ask us about a range of issues such as our carbon footprint, our path to net zero, or our approach to diversity & inclusion. We are pleased that they are asking us these questions: not because we are perfect – but because we believe that transparency and constructive engagement with our clients and stakeholders ultimately strengthens our business.

As we evolve and improve, we continue to invest in this area. We believe successful ESG integration and stewardship is a process that needs continual review and updating; it isn't a task to 'complete'. We are fully committed to the United Nations (UN) supported Principles of Responsible Investment (UNPRI) and we are a proud member of the UK Financial Reporting Council's (FRC) 2020 Stewardship Code. This report provides an overview of how we fulfil these important commitments. I hope you find it interesting and informative.

About RLAM

RLAM was set up in 1988 as an in-house asset management business for a relatively small mutual life insurance company. The following 30 years have seen both RLAM and its parent enjoy huge success growing to become major parts of the UK financial services industry. Today, RLAM is an integral part of the Royal London Group, the UK's largest mutual life pensions and investment company.

RLAM is a unique asset manager: with a mutual ownership structure and managing £163.8 billion of assets (as at 31 December 2021. Source: RLAM). We offer a broad range of investment strategies across a range of strategies in core asset classes including, but not limited to; cash, equities, fixed income, sustainable investments, multi asset, property and absolute return. We are also a market-leader in responsible investment, with a philosophy that flows through everything we do. It involves being a responsible steward of assets, promoting responsible investment and offering a range of sustainable and responsible investment options.

Our purpose and strategy

RLAM is an integral part of the Royal London Group, with our direction driven by a shared purpose: "Protecting today, investing in tomorrow. Together we are mutually responsible." This underpins our strategy to be a growing modern mutual with a focus on delivering for our clients.

RLAM's ambition and strategy is tied to this purpose. Our ambition is to build a truly client-centric organisation, helping clients protect their investments today while investing well for the future. This ambition can be seen in the way that we create and manage client strategies, how we look after their investments, and the way that we behave in the wider community.

Our mutuality ownership model helps to distinguish RLAM in the asset management market, giving it the outlook, culture and values to set it apart from its competitors. All staff members are also members of the mutual through our pension scheme, and therefore have exposure to our funds, helping to align us with client outcomes.

Free from the burden of shareholder pressures, and working alongside our parent company, we prioritise the long term; our views are not impacted by a need to chase short-term returns, and nor do we think just one quarter ahead at a time. Our mutuality, combined with the experience and judgement of the teams of successful and proven fund managers, enables us to continue on our own path. Over four decades, RLAM has a proven history of providing award-winning investment management services, and we believe that our unique, independent vision will remain an asset in the future.

£164bn AUM
(as at December 2021)

Founded **1988**

We are one of the UK's **leading fund management** companies.

We practise **responsible investment** across fixed income, equities and property.

We are a wholly-owned subsidiary of the Royal London Group, **the UK's largest** mutual life pensions and investment company.

Ashley Hamilton Claxton
Head of Responsible Investment

> “This is the time to be active, engaged, and part of the solution.”

Our approach to stewardship and responsible investment

Last year was one of significant change in responsible investment. We equate this period to the 'teenage years' for the industry – a period of rapid growth and upheaval that brings with it experimentation, uncertainty and, ultimately, important boundaries that should set us on the right path. Building on some of the trends seen in 2021, it is abundantly clear that responsible investing is now an integral part of the mainstream investment world. According to the Investment Association (IA), gross sales into responsible funds totalled £36.2 billion in 2021 (to 30 November 2021). Net sales for the same period were £21.9 billion, representing growth of about 40% on 2020.

Responsible investment is both commercial and imperative. This is a very privileged place to be, and an opportunity that none of us can afford to throw away. Our lives and lifestyle as we know it are in jeopardy – economic inequality, climate change, soil erosion, water pollution, cyber-crime and political instability are now recognised as endemic, long-term trends that must be resisted and overturned. How do we harness this collective momentum to make the strategic shifts to achieve our shared long-term social, environmental and financial goals? One thing is certain, none of us can afford to be passive. This is the time to be active, engaged, and part of the solution.

RLAM is heeding this call to action. In 2021, we moved over £20 billion of our tracker equity investments away from market-weighted benchmarks into ESG and carbon-tilted funds. This was a strategic and decisive move based on our belief that the market does not properly value ESG risks or impacts, and that climate change poses a significant market risk that is not priced into equity valuations.

On the product side, we launched two new Global Equity products in our Irish funds vehicle with 'ESG Characteristics' and compliant with Article 8 of the European Union's (EU) Sustainable Finance Disclosure Regulation (SFDR). We expanded our successful Sustainable funds range by adding a Global Sustainable Equity fund in Ireland, as well as Global Sustainable Credit and European Sustainable Credit funds. This fund range has benefitted from the significant growth in the industry and has now increased to over £12 billion in assets under management.

We also took action to further embed ESG data, tools and insights into our business. We built a proprietary ESG Dashboard that gives investment teams access to the data they need and that our clients are asking for. We also developed a bespoke Engagement Tracker to help us log and monitor our engagements with companies. ESG integration is an ever-evolving task, so we are continually improving and evolving the tools and systems to support our investment teams.

Like many other investment companies, we often feel pulled in several different directions. One significant challenge we face as a business is how to stay focused on the things that matter,

Figure 1: RLAM's approach

'Responsible investment' is the umbrella term for our approach to ESG integration and stewardship, which covers all of our investment teams, strategies and funds.

spending our energy where we can have the most influence. With so many issues, and so little time, it can quickly become overwhelming. That is why we choose to focus on specific key engagement and research topics – carefully selecting those where we can make a difference for our clients and our members, and where we can do our part for the environment and society.

We continue to use our shareholder rights to actively participate at annual meetings, choosing to examine each vote before casting it. This essential act of stewardship is simply too important to outsource. With our climate policy in place, we are improving how we measure, monitor and govern our approach to climate risk, and embedding this policy in security selection, portfolio construction and product development. In 2022 we will be publishing an update to our Task Force on Climate-related Financial Disclosures (TCFD) report, including our climate metrics for 2021. We have also set new internal targets for RLAM to achieve net zero by 2050 and a 50% reduction in the carbon intensity of our investments by 2030. We acknowledge by setting these targets, we and the rest of the investment industry have a big task ahead of us. We are up for the challenge, and willing to work with our clients, government and companies to help address this collective problem. We will not be able to do it alone, and we will need to work together.

Looking ahead, we see the outlook for responsible investment as mixed. I think the industry is entering a period of uncertainty, and expect regulatory scrutiny to increase and confusion over language and terminology to persist. The practice of 'greenwashing' risks eroding much of the positive progress and momentum generated. It remains our duty as an industry to prove responsible investing and stewardship adds value. If we can do that credibly, I'm confident we will see continued growth and success.

The good news is that the momentum is with us. People want to invest sustainably, want to support businesses that recognise and share their values, and want play to their part in the transition to a lower-carbon economy through their pensions, savings and investments. We think this report demonstrates that RLAM is well positioned to help our clients do just that.

RI highlights 2021

- Successful move of our passive equity funds to ESG tilted strategies (over £20bn AUM) – At least 10% (UK) and 30% (all others) lower carbon intensity than their benchmarks.
- We published our first Taskforce on Climate Related Financial Disclosure (TCFD report), which will be followed by an updated report in Q2 2022.
- Confirmed signatory status to 2020 UK Stewardship Code.
- Launched internal ESG Dashboard, complete with proprietary scoring model.
- Record-high 44,452 resolutions voted on at 3,765 meetings.
- Engagement with 221 companies over 368 interactions over the year (173 climate-related engagements) .
- Refreshed RLAM's engagement priorities (including two new themes – Health & Biodiversity) following consultation.
- RLAM's Property team refreshed its responsible property investment strategy and announced a net zero pathway.

Carlota Garcia-Manas
Head of Engagement

> "We want our engagement with companies to serve a clear purpose, meet the needs of our clients, and have clear outcomes."

Engagement and advocacy

Our approach to engagement

The engagement we undertake with our investee companies on strategic, environmental, social and governance risk management issues forms a core component of our stewardship responsibilities. It is an activity that many of our clients have come to expect from us as an asset manager with a long-term focus. We use our engagement as a tool to help us select and monitor companies in our funds, and to improve their behaviour and performance over time.

We believe good company engagement has a positive cumulative effect. Successive meetings with either management and/or the board helps us to build a better understanding of the company's direction of travel. It also provides us with the opportunity to offer our perspective, and in turn build a mutually beneficial relationship. Ultimately, our goal is to have a positive influence on corporate behaviour and assist companies with improving their practices, governance and oversight, helping them to manage their impact on society and the environment.

We engage with companies on both a proactive and reactive basis. Reactive engagement is driven by market events, such as rights issues or breach of covenants, or governance issues, such as remuneration consultations or board changes. It is also driven by company announcements, ESG risk events or company requests (see 'When and how we engage' on page 12). Proactive engagements however are guided by and carried out in accordance with our engagement priorities.

Setting engagement priorities

Choosing which topics and companies to prioritise for engagement can be a challenge, particularly when faced with an ever-growing list of ESG issues. To achieve the best outcomes for our clients, we look to focus our time and attention on issues that are most material to our investments, and where engagement can have the most impact on environmental and social outcomes. We do this by focusing our engagement on six key themes, and choose these themes via a process involving extensive consultations with fund managers, responsible investment analysts, clients and other stakeholders.

We review our engagement themes every two years, a process that allows us to amend or set new priority areas – we undertook this process during 2021 to determine a new set of priority themes for the 2022 to 2024 (see the 'Engagement themes for 2022 to 2024' section for more detail). For 2021, our themes in focus continued from the previous year. These were:

- Climate risk;
- Diversity;
- Innovation, technology & society;
- Circular economy;
- Governance; and
- Social & financial inclusion.

Figure 2: Engagement priorities 2019-2021

Climate risk

The climate is changing. Companies need to prepare for the energy transition and physical impacts of climate change.

Diversity

Avoid group-think. Diverse companies are more innovative and create better outcomes for customers.

Innovation, technology & society

Technology is advancing, jobs are changing. Companies need to be cyber-resilient, tech-savvy, and responsible users of data.

Circular economy

Reduce, reuse, and recycle. Companies need to be designing products and processes of the future that don't hurt our planet.

Governance

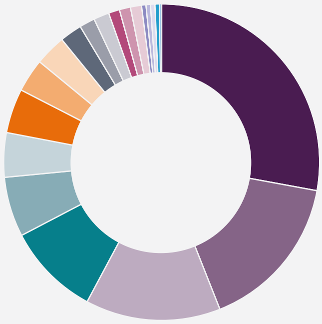
Checks and balances. Successful companies need strong boards, appropriate pay, and be accountable to their stakeholders

Social & financial inclusion

Leave no one behind. Companies succeed when everyone has an opportunity to participate and be a productive member of society.

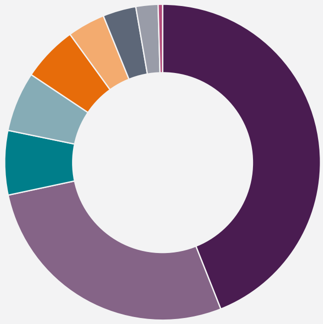
Figure 3: Engagement activity 2021

Engagements by topic



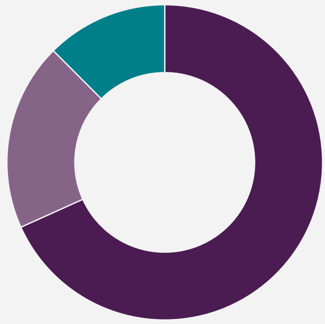
- Climate - transition risk **27.9%**
- Climate - physical risk **16.1%**
- Remuneration **13.8%**
- Corporate governance **9.5%**
- Environment **6.1%**
- Ethnic diversity **4.5%**
- Social & financial inclusion **4.5%**
- Cybersecurity **3.4%**
- Labour & human rights **3.2%**
- Other **2.3%**
- Board **1.6%**
- Gender diversity **1.6%**
- Covid-19 **1.1%**
- Strategy **1.1%**
- Reputational risks **1.1%**
- Just transition **0.5%**
- Succession planning **0.5%**
- Tailings dams **0.5%**
- Circular economy **0.5%**
- Social bonds **0.2%**

Engagements by theme



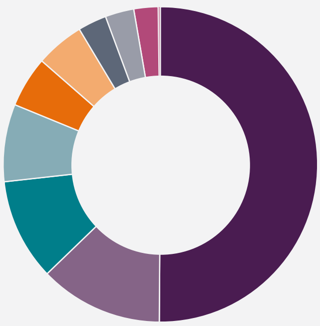
- Climate **44.0%**
- Governance **27.7%**
- Environment **6.6%**
- Diversity **6.1%**
- Social **5.7%**
- Social & financial inclusion **3.9%**
- Technology, innovation & society **3.4%**
- Other **2.3%**
- Circular economy **0.5%**

Engagements by asset class



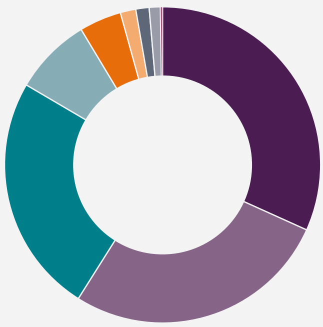
- Equity **68.3%**
- Equity & fixed income **19.3%**
- Fixed income **12.5%**

Engagements by objective



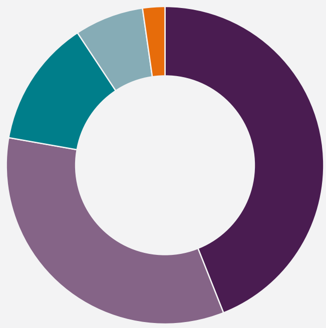
- Seek info **50.1%**
- Improve disclosure **12.7%**
- Improve risk and controls **10.4%**
- Make commitments **7.9%**
- Create or amend a policy **5.2%**
- Relationship building **5.0%**
- Adopt targets and metrics **2.9%**
- Governance improvements **2.9%**
- Change remuneration practices **2.5%**
- Other **0.2%**

Engagements by outcome



- Info provided **31.7%**
- In progress **27.2%**
- In scope **24.5%**
- Positive change **7.9%**
- Objectives achieved **4.3%**
- Poor progress **1.6%**
- Not in scope **1.4%**
- No response **1.1%**
- Engagement failed **0.2%**

Engagements by pillar



- Climate **44.0%**
- Governance **33.8%**
- Social **12.9%**
- Environment **7.0%**
- Other **2.3%**

Source: RLAM, for 12 months ending 31 December 2021

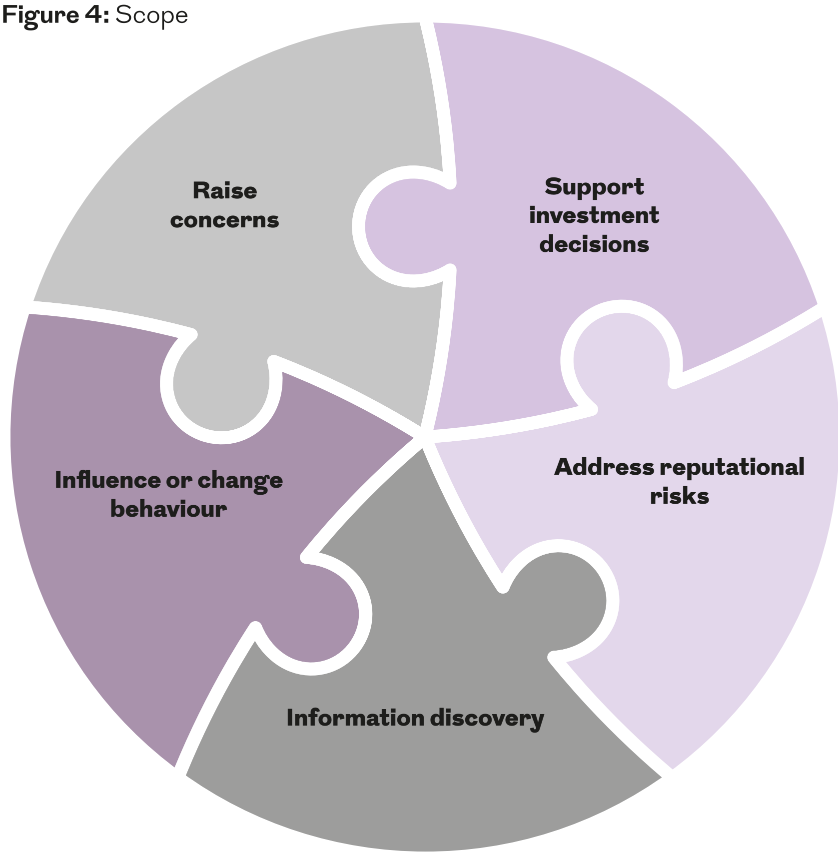
Scope and process

We engage across both our equity and fixed income funds, which is global best practice and is required by the 2020 UK Stewardship Code. We want our engagement with companies to serve a clear purpose, meet the needs of our clients, and have clear outcomes. Engagement can take two forms: engagement for information, or engagement for change:

1. **Information discovery:** Engagements that seek to uncover additional information about company practices, or to identify the need to change or influence behaviour. This type of engagement is less intensive and designed to feed information back into our investment, voting and engagement activities in a dynamic and nimble way.
2. **Change and influence:** Engagements that seek to influence company decisions and change behaviour. These engagements are resource-intensive, time-consuming and can take place over months or years, but may lead to significant changes to company behaviour and ultimately better customer outcomes.

We believe both engagement types are crucial to being a good steward of our clients' assets. Figure 4 summarises the scope of our engagement process.

Figure 4: Scope



Engagement criteria

Our engagement topics must meet the following criteria:

- Meet the needs and expectations of clients
- Be material and relevant to investment decisions
- Have the potential to impact corporate ESG or financial performance or reduce risk
- Raise best practice standards within a sector or market
- Add value in advancing thought leadership and good governance
- Address a principal adverse ESG impact

When and how we engage

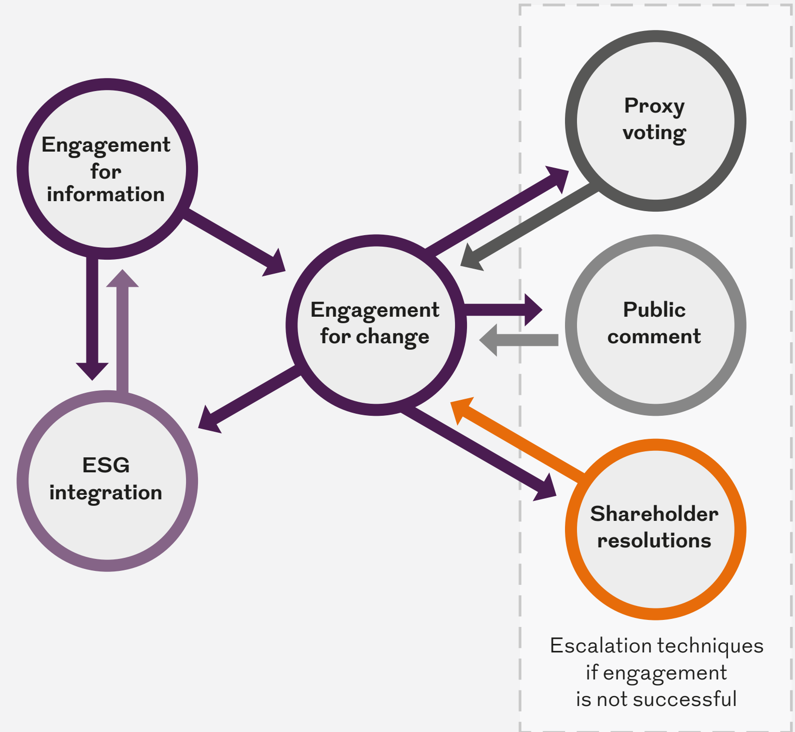
At RLAM, opportunities to engage with a company on a topic are reviewed by the Responsible Investment (RI) team in consultation with our fund managers. There are a number of ways we source new engagement ideas, including from internal ESG research, portfolio reviews, client requests, fund manager queries, regulation, events, and company requests. While we would like to work on many of the new topics that we come across, this isn't always possible, so we apply the following filter process when choosing to engage with companies.

1. Is there a potential material financial or ESG impact?
2. Does it address a social or environmental Principal Adverse Impact?[1]
3. Does RLAM have a significant holding?
4. Is there a significant reputational risk?
5. Does it fit with our engagement themes?

New engagement projects – or requests to sign joint letters or public initiatives – are approved by the Head of Responsible Investment to ensure they meet our stewardship and responsible investment strategy. We select the companies we engage with based on:

- Evidence of poor performance (or outperformance) on ESG issues relative to peers.
- Evidence of ESG risk that has the potential to cause value destruction or significantly affect the reputation of the company or of RLAM and its clients.
- Size and nature of any principal adverse impacts.

Figure 5: Our engagement process



- Percentage of gross exposure within our holdings.
- Percentage of the outstanding shares or bonds held by RLAM relative to other companies.
- Fund manager or client recommendations.

Escalation and public comments

Some companies do not respond to requests for engagement, despite having what we consider to be significant, persistent or intractable ESG issues that pose a significant risk to our clients' assets. In such circumstances, we will escalate to the relevant Head of Desk, RLAM's Chief Investment Officer and our Head of Responsible Investment to discuss the most appropriate action to take. Decisions and actions agreed will be reported to the Investment Committee for information and noting.

Direct actions can include escalating the matter with the chairman or other senior executives of the entity, as appropriate. We can also use our shareholder votes to put pressure on the relevant directors or other management personnel at a company's next annual general meeting (AGM). In some instances, when the issue warrants further scrutiny, we may file or co-file a shareholder resolution, or issue a public comment.

We will make use of the full range of tools at our disposal in circumstances where we judge that value is or may be undermined, while ensuring we are always acting in the best long-term interests of our clients. Figure 5 illustrates how our escalation process fits between engagement and ESG integration. Naturally, we will explore divestment as an option in cases where our escalation techniques have proven unsuccessful.

Investor collaboration

As an active asset manager, most of our company engagement meetings are conducted on a one-to-one basis. However, we understand the value of working with others to be more effective in influencing company behaviour. Therefore, we also consider collaborative engagement on a case-by-case basis.

We will favour collaborative engagement with other shareholders when:

- The company has been unresponsive to private engagement, or where its actions have not been sufficient to address our concerns.
- The situation is of sufficient seriousness that progression to a collective meeting is appropriate.
- Where partnering with a larger shareholder or bondholder would make it easier to gain access to the company's management or board, or help to exert greater influence.
- The company is in a jurisdiction where local partners may enhance our ability to engage through their physical presence and/or understanding of local practices.

Notable examples of collaborative initiatives throughout the year include:

- **Just Transition Alliance** Just Transition Strategy adoption. (See the 'Just Transition engagement report 2021' for more information)
- **30% Club Investor Group** – Gender diversity
- **Climate Action 100 (CA100+)** – Climate strategy in the mining sector
- **Swedish Council on Ethics** – Human rights in tech
- **UNPRI**– Facial recognition
- **UNPRI** – Human rights risks in the Xinjiang region of China

Advocacy and public policy

We also think it is important to work with regulators, governments, standard-setters and non-governmental organisations (NGOs) to advance good governance and responsible investment. This includes providing responses to consultation requests, surveys, and meeting with regulators or others to express concerns or support for policies and practices.

In many cases, where we are unable to respond directly, we will engage with our industry associations, such as the IA, to make representations on our behalf. In particular, we have taken this approach with regards to EU regulations. Most of our public policy work is focused on the UK, where we currently have the greatest asset exposure, but we undertake advocacy in other markets where it is considered important for our clients or material to our investments.

We also commit our time and expertise as advisors to trade associations or bodies that advocate good stewardship practices, such as the UNPRI, the IA, the Financial Reporting Council, Climate Financial Risk Forum (CFRF), and the Institutional Investors Group on Climate Change.

RLAM signed the Statement of Investor Commitment to Support a Just Transition on Climate Change in 2019, and in 2020 joined the Financing a Just Transition Alliance (FJTA), an initiative backed by the UK government and led by The London School of Economics. FJTA offered practical steps for companies to connect climate action with positive social impact in the run-up to the UN's 2021 Climate Change Conference, more commonly referred to as COP26. FJTA brings together banks, investors and other stakeholders in the UK, to build on the growing momentum for a Just Transition. (The concept of the Just Transition is to ensure that social issues are considered when moving to a low carbon economy).

In 2021, we progressed our engagement efforts and welcomed six public Just Transition strategies from the energy utility companies we engaged with (see the Just Transition project timeline in 'Net zero engagement' section, on page 16).

We co-signed letters to the UK's Prime Minister, as part of our membership of the FJTA to accelerate action towards a net zero economy while broadening the opportunities and minimising the risks for society. We also co-signed a letter to the UK government, asking it to provide greater clarity on how and when it intended to make net-zero transition plans mandatory.

Through our membership of various committees[2] at the Investment Association, we have provided comments and feedback on a number of government consultations, discussion papers and regulations, including:

- EU Taxonomy and SFDR.
- Financial Conduct Authority (FCA) Sustainable Disclosures Regulation (Discussion Paper 21/4).
- FCA Enhancing Climate-related disclosures (Consultation Papers 21/17 and 21/18).
- Financial Stability Board (FSB) TCFD's public consultations on metrics, targets and transition, and portfolio alignment.
- CFRF Disclosure Working Group contribution to guidelines published in October 2021 on climate disclosure, climate data and metrics, and managing legal risk of climate disclosure.

We also provided survey responses to the Department for Work & Pensions' Taskforce on Pension Scheme Voting Implementation, which looks at the extent to which asset owners can become more active in expressing their views and opinions when voting at company meetings.

We supported consultations including the Chartered Financial Analyst (CFA) Institute's consultation on draft Diversity, Equity and Inclusion through the UNPRI, Just Transition methodological improvements for the Transition Pathway Initiative and World Benchmarking Alliance, 2 Degrees Investing Initiative, and the public consultation draft of the 'Net-Zero for Financial Institutions' standard published by the Science Based Targets Initiative (SBTi).

Engagement projects 2021

Net zero engagement

As an asset manager active across asset classes and regions, we need to play our part in tackling climate change. There are a number of ways we can do this. As an allocator of assets on behalf of our clients, we can channel capital towards less carbon-intensive companies or assets, and away from those companies unable or unwilling to change. In 2021, we took a major step forward by changing our market-weight passive equity funds to incorporate quantitative carbon tilts. We have also started to embed a net zero pathway into how we acquire and manage properties, with a view to having a net zero property portfolio by 2040. We are also increasingly using carbon and climate analysis when choosing whether and how to lend to companies within our fixed income funds.

A second powerful tool for us is engagement and advocacy. This is something we at RLAM feel passionate about – we do not see the value of 'greening our portfolio' without thinking about the impact on the real world. It's no good simply selling 'dirty' assets if someone else will buy them and continue polluting as normal. Therefore, we are continuously enhancing our engagement with companies and focusing more of our time and effort on examining the credibility and progress of their climate transition strategies. Our goal is to ensure companies set targets aligned with an ambition to limit global warming to 1.5°C, work to enhance their climate transition plans and act now in reducing real-world emissions.

Our climate transition engagement spans multiple sectors and incorporates both forward and backward-looking data and analysis. This includes looking not only at past carbon emissions that are reported by companies, but also understanding future 'warming' trajectory and companies' strategies and plans for reducing emissions and meeting net zero targets. We have started with the companies that have a significant impact on the climate profile of our funds – particularly energy and heavy industry – and we are expanding to now look at banks and other contributors to 'Scope 3' emissions.

We spoke to 70 companies in depth on climate during 2021, and contacted 19 companies specifically to ask them to implement our net zero engagement framework. These companies operate within the energy utilities, oil & gas, semiconductors, mining, banks, chemicals, and food & packaging sectors.

Net zero engagement framework

There are three key things we want companies to do:

1. **Set targets aligned with the 1.5°C ambition:** we expect companies to reach net zero emissions by 2050 or earlier on all scopes of emissions, and to offset only residual emissions following net zero-aligned offsetting principles.
2. **Bring others to net zero:** we expect companies to commit to scaling-up technology and solutions, lobbying for policy that accelerates the transition to net zero, and engaging fully with the entire business value chain – including communities and workers – to ensure a Just Transition.
3. **Demonstrate action now:** we expect companies to set ambitious short-term targets, and for boardroom, management and employee incentives to be aligned to achieving net zero targets. Companies should develop an action plan with specific operational implications and any necessary business model transformation required to become a net zero business. Companies should also align their capital and operational expenditures, accounting practices and infrastructure plans with the Paris goals, and invest in adaptation measures to ensure resilience against climate impacts.

Net zero for banks – engaging on financed emissions

We modified the framework for our engagement with banks, as their net zero transition models relate to their lending and investments, rather than their own operations. We are asking companies in the banking sector to:

- Reach net zero financed emissions at the earliest feasible timeframe, with 2050 as the backstop date.
- Include all financing activities across different asset classes and sectors within their plans.
- Avoid using offsetting for financed emissions.
- Commit to scaling-up finance for solutions required to achieve net zero.
- Engage with their clients to implement net zero commitments, and over time, phase-out finance for clients that are not able or willing to transition.

Our engagement with the banking sector led us to specifically target companies with high Scope 3 (estimated) emissions and those that were shown to be driving high implied temperature across a number of our fixed income funds. During the third quarter of 2021, we had constructive conversations with Nationwide, HSBC, The Co-operative Bank, NatWest and Virgin Money UK. Each embraced our recommendation to focus some of their climate work on Just Transition alignment, and to progress with the decarbonisation of their lending. We discussed the data in detail, reporting and target-setting challenges for financed emissions, and the challenges faced by different banks.

CASE STUDY

HSBC

We met with HSBC's Global Chief Sustainability Officer to discuss our expectations on how banks can meet net zero targets. During the meeting, HSBC agreed to ensure quality disclosure on the methodological assumptions and limitations of achieving this target. We specifically discussed the coverage and quality of the data to assess baselines for its targets and to ensure key emitters are covered. HSBC informed us it would refresh its lending policies and add detail to its commitment to phasing out coal lending by 2040, a commitment announced in December 2021. We asked for further clarity on what HSBC understands and defines as 'transition finance' and how it engages with its clients to support this. Furthermore, HSBC agreed with us on considering the social impact of its climate plans and embedding Just Transition considerations. The company informed us that it included social impact in its sustainability strategy under the framing of 'inclusive' growth. We also discussed barriers to growing the green bond market in Asia, the process by which it ensures classification of 'green' lending and finance is robust, and how it can scale financial solutions for Asia's climate transition.

Later in the year, we provided feedback on HSBC's coal policy, including suggestions on how to improve the aim, scope, accountability and oversight, and timelines of the policy, as well as the use of climate transition plans as a tool. We asked it to specify different aspects of the policy to strengthen its immediate effect.

Overall, while we have had a series of constructive conversations and learned about HSBC's net zero strategy and its likely implementation, we will continue our engagement to get further comfort about the methodologies behind its targets.

Engagement in the energy utilities sector

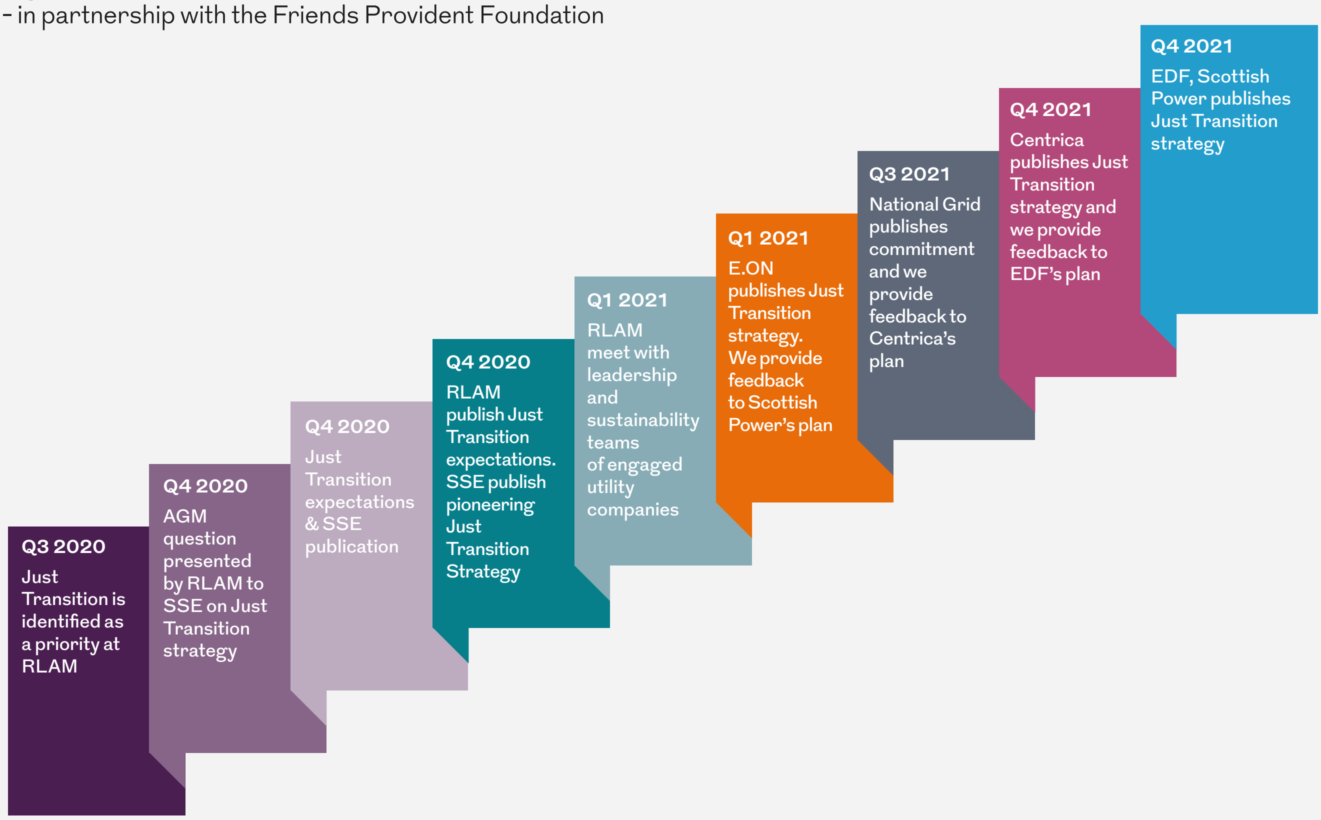
Energy utility companies are some of the top contributors to the carbon intensity of our equity and fixed income portfolios. While on the face of it they look like heavy emitters, many of them have proven and feasible pathways to achieve net zero emissions by 2040. We expect they will be pivotal in the decarbonisation of the global economy through electrification. As a result, last summer we asked five energy utility companies in the UK and the US to bring forward their net zero targets to 2040. This is in line with the latest guidance from the International Energy Agency which concluded that utilities needed to decarbonise faster in order for the world to meet its 1.5°C target.

As a co-chair of the Institutional Investors Group on Climate Change European Utilities working group, we helped co-author a global strategy document for electric utility companies as part of the Climate Action 100+ initiative[3]. This document sets out clear investor expectations for the sector. Although it might seem sensible to direct capital away from these big emitters, we believe excluding these companies from investment portfolios would be counterproductive. It would remove our ability to influence their decisions and activities, and would also ignore the key role they must play in the world's journey towards to a greener economy.

Just Transition engagement

We have also continued with our engagement on the Just Transition Project in partnership with Friends Provident Foundation (FPF). This project focuses on investors supporting and working with energy and utility companies to monitor and address the social impact of their climate goals. Of the seven utility companies we targeted, all but one, the German company RWE, have published a Just Transition plan or statement, as we requested. This is a significant engagement success in our view, as the Just Transition is an issue that will have significant social as well as environmental consequences. See the timeline below highlighting the key engagements with energy and utilities companies undertaken as part of the Just Transition Project. (See the 'Just Transition engagement report 2021' for more information)

Figure 6: Just Transition Engagement Project timeline - in partnership with the Friends Provident Foundation



Ethnic diversity & workforce engagement

Ethnic diversity

We first outlined our ethnic diversity engagement project in our 2021 Stewardship Report. The initial phase consisted heavily of learning from best-in-class companies about the innovative and progressive ways they were addressing ethnic diversity, and also determining the more inclusive practices we ourselves were applying internally.

Our work in 2021 centred on identifying those companies that we considered to be 'lower performers' in terms of ethnic diversity practices, and using the knowledge gained in 2020 to steer our discussions. We contacted nine companies to assess how their goals and ambitions were aligned with improving minority ethnic diversity and inclusion (D&I) practices across all business levels, how they were governing and overseeing these initiatives and whether/how they intended to meet the recommendations of the Parker Review, where the target is for FTSE boards to appoint at least one board director of an ethnic minority background by 2021 (2023 for FTSE 250 companies). We also sought to encourage the capture and public disclosure of ethnicity data.

While many companies are already on the path to presenting this data, it was evident that for some this still presents a challenge. For one international aerospace company, the lack of ethnicity data was due to legal restrictions in certain parts of the world. For another UK distribution business, hurdles came in the form of consistently low employee response rates.

However, we were encouraged that many companies were taking positive steps to influence more diverse representation through their hiring initiatives. At one hospitality business, the chairman described its director shadowing scheme, employing individuals from diverse backgrounds and helping to build their professional profiles. By doing this, the company is seeking to solve a lack of suitable candidates by providing the necessary experience to increase the pool of talent available for board-level appointments.

Case study: UK insurance company

At a UK insurance company, we heard about the difficulties in securing a diverse talent pool given the small workforce and high retention rate of its senior employees. The lack of a clear strategy to improve diversity was disappointing as we had expected to see a broader effort applied to this ambition. In our feedback, we made clear our expectation to see a formal D&I policy as well as a commitment to future reporting on the ethnic composition of its workforce.

Where external head-hunters are used, companies highlighted the use of a shortlist of both gender and ethnically-diverse candidates as per their recruitment briefs to agencies. However, we were disappointed to learn that this is often not mirrored in wider workforce recruitment (you can read about RLAM's approach to Diversity & Inclusion on page 67.)

For those companies where the evidence caused concern, we shared research and findings on the importance of this issue alongside the recommendations of the Parker Review. We also requested they consider joining external initiatives such as the Business In The Community (BITC) 'Race at Work' Charter, which can be used to gain insights and set specific actions for the company. Promisingly, a number of companies have proactively contacted us following our initial discussions to provide updates on their strategies. We intend to seek progress meetings in 2022 and will extend our engagement to new companies throughout 2022.

Workforce engagement

There is a growing recognition that company boards must improve measures to understand the needs of the workforce. Specifically, the role that positive corporate culture plays in cultivating an engaged workforce, and an engaged workforce can ultimately lead to increased benefits to company competitiveness. In 2021, we continued our workforce engagement project, building on the work first outlined in our 2020 Stewardship Report.

Our objective was to apply the knowledge gained in our 2020 outreach to help companies we had identified as laggards in this area to improve their disclosure and practices around workforce engagement. We held successful engagement meetings with eight out of the nine companies identified. The ninth company failed to respond to multiple attempts to meet with them.

Common issues identified before our engagement meetings included:

- The use of boilerplate language across website, general employee communications, or in internal policies.
- Vague follow-up information provided on employee survey results.
- Lack of specific examples and outcomes of employee engagement activities.
- Limited overall workforce disclosure, leading to incomplete picture of make-up of workforce.

Our position is that companies should choose workforce engagement practices most suited to their business model rather than mandating a set model; whether that is a designated independent non-executive director (iNED), a workforce representative on the board, or a combination of other mechanisms. We ask that companies clearly identify this in their reporting, alongside a description of actions taken during each year.

We were sensitive to the fact that the companies we identified had been through a period of upheaval following the impact of Covid-19, and that the pandemic would have had direct ramifications on their engagement efforts. One of the consistent findings was that most companies are in fact accomplishing much in this area. However, while the focus on employee welfare has been intensified by the pandemic, this effort is often failing to translate into reporting outputs. In addition, we noted that many companies had improved their internal engagement figures and were receiving high employee approval ratings.

Some companies produced less satisfactory findings. One gave the impression of 'tokenism', with an iNED with a 'light touch' approach and with all responsibility remaining with the executive and HR teams. Other companies appeared too reliant on informal engagement mechanisms, which can restrict the type of feedback employees may wish to provide anonymously. While informal channels can prove effective, they tend to work best alongside more formal mechanisms.

We were particularly impressed by the level of detail provided by two companies from the aerospace and hospitality sectors, outlining real-time employee engagement tools and other ways in which technology was being leveraged to support their employees.

One company described specific targets for the director responsible for workforce engagement to meet employees virtually during 2021, ensuring that an appropriate balance of seniority, geographies and roles were represented. The company was also transparent about how employee feedback had revealed some areas of improvement in communication and information flow across different regions.

We were generally satisfied with the quality of the dialogue with engaged companies. Most companies were open, listened to our feedback, and made commitments to improve workforce engagement reporting in the future. We made suggestions such as using specific examples to demonstrate where employee feedback was considered by the board, and the outcome, and the general disclosure of survey results alongside steps being taken to address any concerns.

We were surprised to hear that we were the first shareholders to directly engage with many of these companies on the issue of workforce engagement, with one acknowledging the value of an active shareholder dialogue in bringing reporting to life and to understand where improvements can be made.

We will continue to monitor those companies we engaged with, to check how their workforce engagement practices and disclosures evolve over time, and whether our feedback is taken on board. We are also working to include specific workforce engagement questions as part of standard engagement meetings to widen our coverage of this important area.

Cybersecurity

Cybersecurity has risen in prominence over the last few years. Criminal hackers focus on short-term financial gain using techniques such as ransomware, Denial of Service (DoS), phishing and clickjacking, to steal financial information, extort money from their targets, and carry out other crimes. Criminal hackers typically look to exploit preventable security vulnerabilities. Hackers targeting governments have different motives, and are mainly interested in espionage and the theft of information and intellectual property.

A global concern

With cyber-attacks affecting governments as well as businesses of all sizes, cybersecurity is now widely recognised as an issue of national and economic security. In the US, the Biden administration issued an Executive Order to modernise federal government and infrastructure defences, as well as calling on the private sector to increase its actions to address growing cybersecurity threats. In Europe, Members of the European Parliament voted unanimously in October 2021 to strengthen cybersecurity rules to protect EU member states from an increasing number of online attacks.

This follows the World Economic Forum's calls for private and public sectors to adopt the concept of 'Zero Trust' more stringently as an effective approach to prevent data breaches and mitigate the risk of supply chain attacks. Such calls also emphasise the importance for companies to have strong and dynamic security strategies, particularly those that run on legacy, broad and complex systems and/or are exposed to trusted third-party systems or software.

Figure 7: National Institute of Standards and Technology (NIST) cybersecurity framework

Engagement with portfolio companies

In 2020, we initiated critical engagement on cybersecurity with our holding companies as part of our broader 'Innovation, technology & society' engagement theme. This engagement took place just as Covid-19 was shutting down offices and displacing a large proportion of the global workforce to remote locations. The widespread use of technology, and the continuous reliance of business on digital access, has exacerbated the cybersecurity risk to companies of all sizes and sectors.

In 2021, we continued our engagement from 2020, contacting 24 companies, including some that did not respond to us previously. We also contacted several new companies, particularly issuers of debt instruments, to better evaluate cybersecurity risk within our credit portfolios, as the issue is equally material for both debt and equity asset classes. Our findings from these conversations point to the value of engagement and aid our understanding of the risk mitigation measures that companies have in place – which may not be obvious from their public disclosures.

The sector distribution was more heterogeneous in the second round of engagement. However, we still focused on sectors perceived to be at higher risk by nature as critical infrastructures or services, or by exposure through 'threat surfaces' or multiple access points.

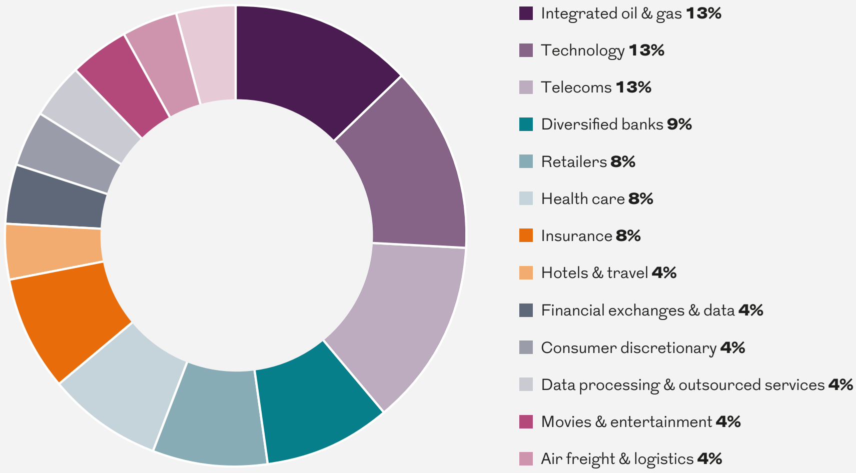
Engagement levels

Of the 37 companies in scope for this project to date, only one openly rejected our offer to discuss their cybersecurity activities. While we made a second attempt to open a dialogue, due to the small size of our holding, we decided not to pursue another avenue to escalate our engagement.

For most companies, the quality of engagement was strong, with some inviting chairpersons and C-suite executives to join the meetings, while others brought their Chief Information Security Officers (CISO) and other technical experts. In both instances, we found the discussions rich and insightful.

As previously reported, due to the sensitive nature of cybersecurity disclosures, most companies have only partial cybersecurity information published on their websites. We have reinforced our understanding of the companies' practices towards cyber resilience and the importance of an appointed executive (such as a CISO) or board member with responsibility for information security and cyber resilience. However, this is no proxy for robust systems, training and most importantly, a cyber-resilient corporate culture.

Figure 8: Cybersecurity engagements by sector



Source: RLAM, for 12 months ending 31 December 2021, subject to rounding

Best practice

We found additional elements of best practice including the certification to ISO27000 for business operations, and not just to satisfy a government contract. Companies were also disclosing their use of the National Institute of Standards and Technology (NIST) cybersecurity framework as a reference for controls to prevent, detect and address cybersecurity threats. Furthermore, some companies had included the cost of enhanced cybersecurity in their analysis of operating expenses, and their positive contribution to public policy development. Finally, we found further inclusion of technology (and cybersecurity) considerations in board compensation and effectiveness reviews.

The companies in sectors linked to financial activity showed a great deal of awareness and advanced systems, in part due to the scrutiny they are under resulting from their systemic importance.

Third party issues

This year we took a deeper dive to understand other vulnerabilities caused by using third parties. The most robust systems include direct communication of expectations to third parties, inclusion of covenants in contracts, vulnerability tests, continuous monitoring (with emphasis on critical relationships and functions), and effective exits for breaches of contract terms. We also identified vulnerabilities during the integration of new business after a merger or acquisition, and we were more explicit in asking about this during our meetings.

In the place of a full, public cybersecurity policy, we would seek the following minimum expectations that demonstrate effective management of cybersecurity risk.

Minimum expectations:

- Risk identification and oversight at board level.
- A nominated CISO with supporting resources.
- Inclusion of cyber covenants in supplier contracts and effective due diligence.
- Inclusion of cyber considerations in inorganic growth strategies, including in due diligence and integration phases.
- Timely disclosure of cybersecurity breaches.
- Disclosures about a cyber-resilient culture, including tailored training across the workforce.

Summary

From our dialogue with companies to date, a few trends are clear. Companies are investing more in cyber resilience and, because of the sensitivity of the matter, they are not inclined to disclose more about their systems publicly. This may be one of the few areas in ESG where we recognise, alongside the views of our holding companies, that increasing disclosure may not be in the best interest of the companies or their investors. In fact, excessive cybersecurity disclosure could make companies more susceptible to attacks.

For this reason, we find engagement is a particularly useful tool for monitoring this increasing risk to ensure it is not being overlooked. The evidence gathered from this exercise has identified, in the majority of cases, investee companies' alignment with our minimum expectations, showing progress towards the increasing management of this risk (see our "Minimum expectations" on the previous page, and "Advanced practices for cybersecurity" adjacent).

One company in particular, where tech is central to its business model, demonstrated exemplary efforts of an integrated cyber risk operating model including disclosure, governance and interaction with regulators.

While organisations can never entirely rule out the risk of a cybersecurity incident, companies that are implementing these best practices are better placed to adapt and respond to these emerging risks. Our continued engagement proves ever-more essential in the wake of the Coronavirus pandemic, so over the course of 2022 we will continue to seek adoption of key measures for achieving cyber resilience as defined by our engagement to date. Our minimum expectations and advanced practices for this engagement into 2022 have been published here.

Advanced practices for cybersecurity

- Inclusion of information security and cyber resilience in executive compensation Key Performance Indicators.
- Use of NIST Cybersecurity Framework as a reference for cybersecurity risk management.
- ISO 27000 for all operations.
- Evaluation of cybersecurity in board effectiveness review.

Themes of engagement: 2022 to 2024

Every two years, RLAM undertakes a comprehensive review of our six priority engagement themes, ensuring that our engagement function stays focused on topics important to our clients and to society. We undertook our latest review last year and have subsequently agreed our six engagement themes for 2022-2024: Climate change; Social & financial inclusion; Innovation, technology & society; Governance & corporate culture; Health; and Biodiversity.

The selection process

The process to select engagement themes is two-pronged, including extensive research followed by a period of comprehensive client consultation and review. In 2021, we compiled a long-list of 52 potential topics for the next engagement cycle by assessing the key themes from a spectrum of sources in the responsible investment landscape, including academics, regulators, corporates, and NGOs. From a list of 52 potential topics, we identified three new potential engagement themes: Biodiversity; Sustainable supply chains and Corporate culture.

The client consultation involved a review of prior themes for continuation and adoption of new themes. The 'Climate change' theme garnered unanimous support to remain as a key priority of engagement, as did the 'Corporate governance' and 'Diversity' themes, particularly with respect to board oversight and workforce engagement. There was only moderate support for the 'Circular economy' theme, the 'Innovation, technology & society' theme, and the 'Social & financial inclusion' theme. For the latter, however, there was significant support for the Just Transition engagement project, which falls across both the 'Climate change' and the 'Social & financial inclusion' themes. The consultation highlighted the desire to significantly expand the Just Transition engagement project beyond utilities, and include a greater focus on reporting impact. (See the 'Engagement consultation process' on page 27.)

Figure 9: Themes of engagement: 2022 to 2024

Climate change

(theme continued)

1. Net zero: Creating a Paris-aligned future.
2. Climate physical risk: Building resilience to climate change.

Social & financial inclusion

(theme continued)

1. Just Transition: Putting the social transition at the heart of the climate transition.

Health

(new theme)

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

Innovation, technology & society

(theme continued)

1. Cybersecurity: Protecting assets and infrastructure.
2. Technology & society: Building responsible technology.

Governance & corporate culture

(combination of two prior themes: 'Corporate governance' and 'Diversity')

1. Good governance and culture: Creating resilient businesses.
2. Diversity: Supporting inclusive decision-making.

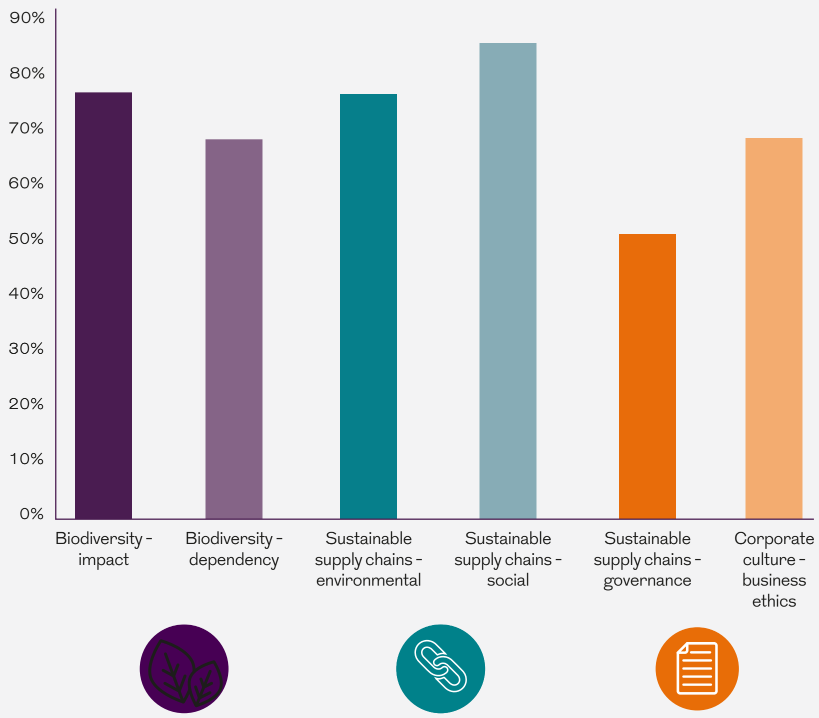
Biodiversity

(new theme)

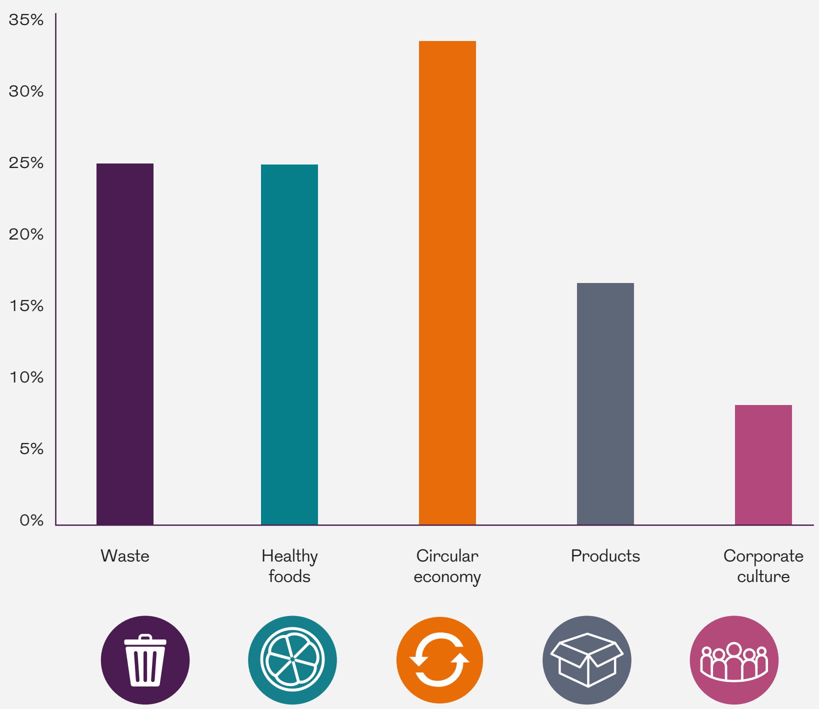
1. Corporate impact on biodiversity: Protecting our natural capital.

Figure 10: Client's support for potential new engagement themes

RLAM's suggested themes (2022-2024)



Clients' suggested themes (2022-2024)



Source: RLAM, as at end December 2021

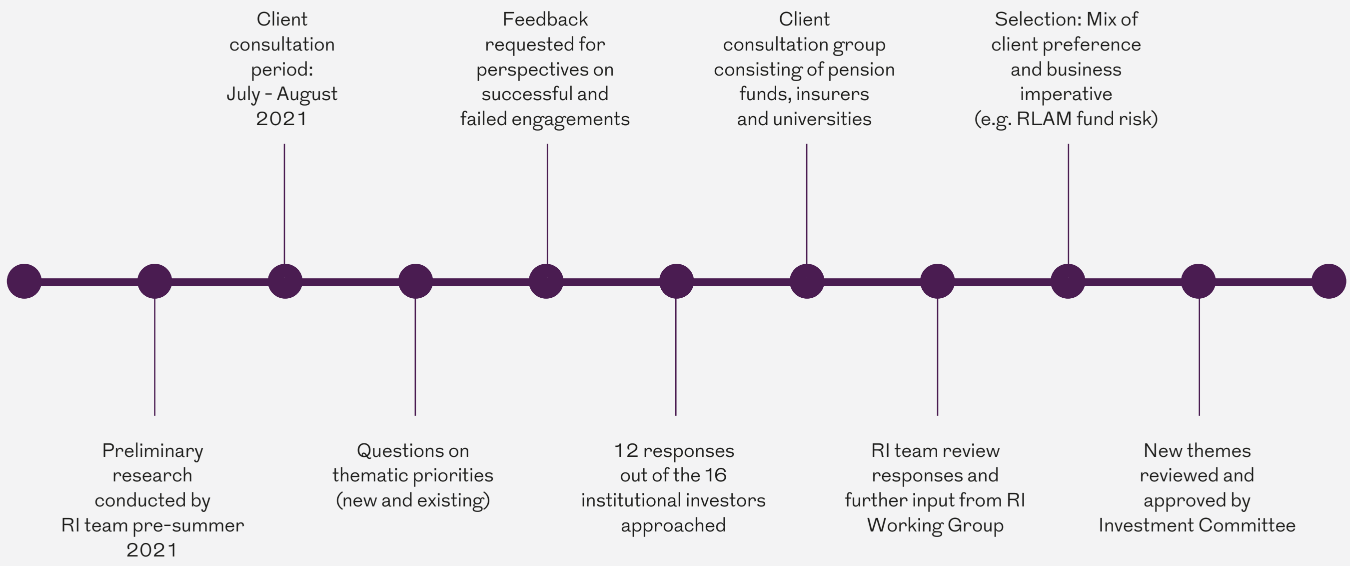
Our engagement themes for 2022-2024

Overall, our consultation on engagement themes concluded with five key goals for 2022 to 2024:

1. Increase our overall emphasis on the theme of climate transition and physical risk in support of our net zero 2050 commitment
2. Expand our Just Transition engagement into other sectors while also focusing on reporting impact
3. Complete engagement with banks and SMEs under the Social & financial inclusion theme
4. Incorporate Diversity within an expanded Governance & corporate culture theme
5. Initiate new engagements under the Biodiversity and Health themes

Our six themes were subsequently approved and signed-off by the Investment Committee, and will form the basis for our engagement activity from January 2022.

Figure 11: Engagement consultation process



Our six priorities explained

Climate; Social & financial inclusion; Innovation, technology & society: these three themes remain in place from the previous two-year period. Despite only moderate support for the continuation of 'Innovations, technology and society' as a theme, we felt it important to maintain a focus on this particular topic for a variety of reasons. First, technology constitutes a large component of our portfolios, and we expect it will increase as the global economy continues to decarbonise. Furthermore, with the inherent innovation that underpins its development, the number of emerging ESG concerns in technology are increasing.

Governance & corporate culture: this priority is technically new, however, through discussion with clients we found close ties with corporate culture and two of the 2019-2021 themes: 'Corporate governance' and 'Diversity'. This led us to consider whether the 'Diversity' theme would fit within a broader interpretation covering 'Governance & corporate culture'. We felt a broader theme would more effectively capture issues such as diversity, workforce engagement and remuneration. Our clients reinforced the view that a broader theme incorporating both corporate governance and diversity would ensure a more holistic interpretation of corporate culture that would better align with the principles they seek to engage upon.

Biodiversity: biodiversity was a big winner from our client consultation and is a new theme for 2022-2024. Not only was this theme extremely popular with clients, but it is coming into greater focus from the global community. The first part of the 15th Conference of the Parties (COP) to the International Convention of Biological Diversity took place in October 2021, and the second phase takes place between April and May 2022. Also, 'The Dasgupta Review' published by the UK government in 2021, argues that our biodiversity crisis is undermining the "productivity, resilience and adaptability" of nature.

We also felt that we could use the theme to incorporate engagement on plastics, packaging, and waste – three of the most common themes raised by clients during the consultation – as a continuation of our circular economy engagements, leading us to drop the Circular economy as a standalone theme for 2022-2024.

Health: the final major suggestion from clients was around health and healthy foods, which helped us in the decision to create the final new theme. Health has been a topic of much greater focus since the outbreak of the coronavirus pandemic, both in a physical as well as mental sense, and we agreed with clients that health should be incorporated as a key theme of future engagement. The theme will cover mental as well as physical health, and will include, for example, the impact of technology on young people's mental health. We will engage in projects that expand our social remit and align with the UK government's 'Better Health' and 'Levelling Up' agendas.

Sophie Johnson
Corporate Governance Manager

> "Climate was increasingly on the voting agenda during 2021, as more companies put climate transition plans to a share-holder vote."

Governance and voting

Using our voting rights is an important part of our stewardship strategy, and a way to promote and protect good corporate governance. After the phased addition of our global passive funds during 2020, 2021 was the first full year of voting all of RLAM's equity funds. The total number of meetings voted rose to 3,765 in 2021, across eight regions. We also vote on our fixed interest holdings when the occasion arises, as explained further on p.37.

Voting activity

RLAM considers every vote as significant for the purposes of the EU Shareholder Rights Directive II (SRD II).[4] As such, we publicly disclose the outcome of all our votes, alongside the rationales for when we vote against management, on our voting website in a searchable online database.[5] The following is a high-level overview of key votes and our general voting behaviour. We have highlighted votes we believe may be of greater interest to our clients due to the subject matter and materiality to the company, as well as illustrating how we approach a variety of issues when voting. Examples include votes that deal with controversies, diversity, environmental issues, health and safety concerns, shareholder proposals, or remuneration.

Executive remuneration

As our voting activity has expanded further into global markets, we have adapted and refined our approach to suit each of these markets. Our aim is to uphold best practice and push for improvements, while being mindful of the issues and specific circumstances for each company.

A large percentage of our equity assets are invested in UK-listed companies, where we as a UK business have greater ability to engage and influence company behaviour. As such, we focus our efforts on reviewing the executive remuneration of these companies, whether large or small, main market or Alternative Investment Market (AIM) listed. During 2021, we voted against or abstained at 127 out of a possible 700 companies in the UK; or 18% of the time; a decrease from 2020. We wrote to these companies at the time of their AGM, to express our concerns with the remuneration report and/or policy, and offered them the opportunity to engage with us further. Globally, we voted against or abstained at 1,659 out of a possible 5,246 companies, or 31.9% of the time. We will have also sent letters to some of these companies where our holding is material or our concerns sufficiently serious.

Diversity

As part of our voting activities in 2021, 105 companies were highlighted for diversity concerns out of a possible 727 companies voted on across the UK during the period. Of this number, we voted against or abstained on the re-election of the chairman of the nominating committee at 38 separate companies, due to our concerns that diversity was not being adequately addressed. This is compared to 54 in 2020. We abstained on eight occasions, largely as these were small cap companies with smaller boards, resulting in more challenging succession planning.

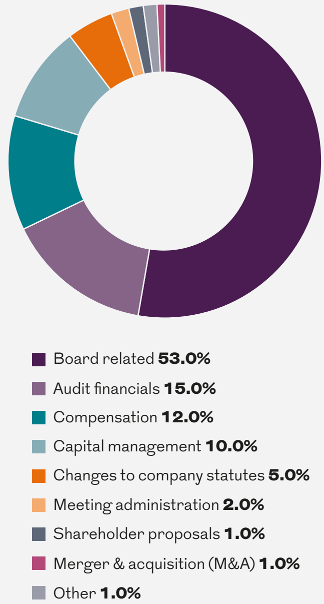
(Cont.)

2021 voting activity

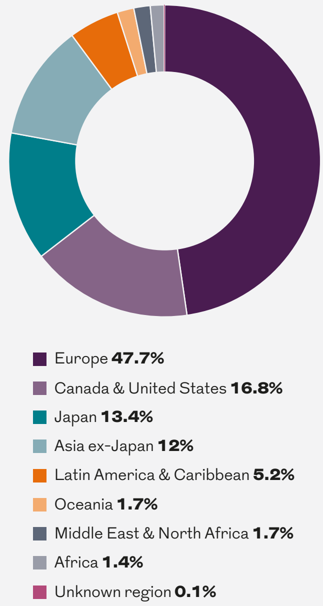
Summary

Proportion of voting outcomes for all resolutions in 2021

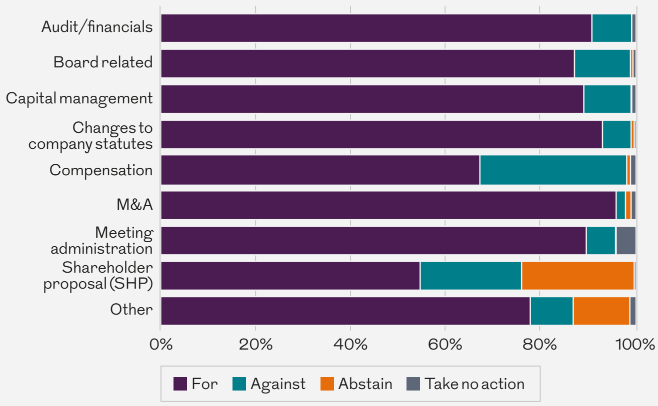
Votes by category



Votes by geographical region

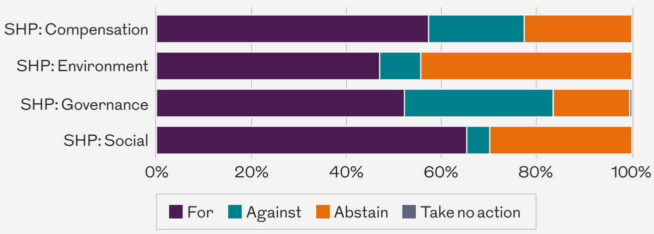


Total voting record



	For	Against	Abstain	Take no action†
Audit/financials	6,120	557	6	43
Board related	20,466	2,741	150	84
Capital management	3,965	443	7	28
Changes to company statutes	1,990	130	13	4
Compensation	3,535	1,622	37	52
M&A	340	7	4	3
Meeting administration	732	51	1	32
SHP	363	142	157	1
Other	488	57	74	7

Shareholder proposal votes



	For	Against	Abstain	Take no action†
SHP: compensation	23	8	9	0
SHP: environment	49	9	46	0
SHP: governance	198	118	60	1
SHP: social	93	7	42	0

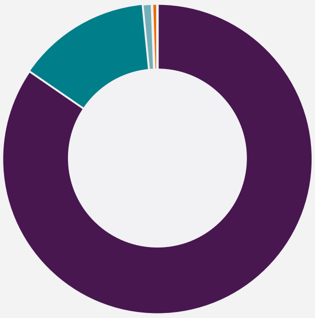
Figures are subject to rounding and therefore totals may not always equal 100%.

† Take no action – we endeavour to vote at all meetings other than in markets where voting would result in shareblocking.

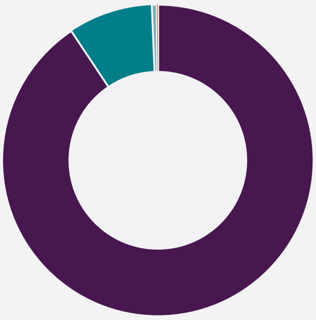
Source: RLAM, for 12 months ending 31 December 2021

2021 voting activity

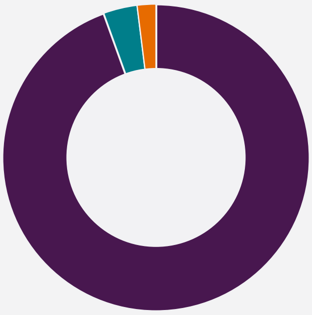
Votes with or against company management



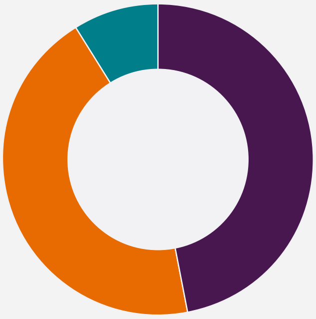
Votes with or against Glass Lewis recommendation



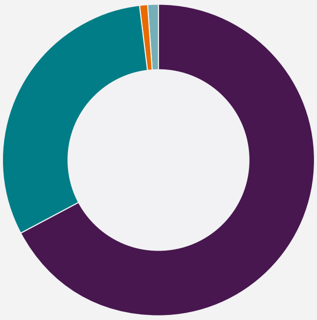
Votes with or against RLAM policy



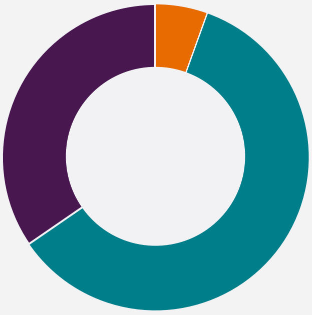
Climate votes**



Executive remuneration votes



Diversity votes*



Figures are subject to rounding and therefore totals may not always equal 100%.
*diversity votes include all votes flagged for diversity concerns.
**Shareholder proposals only in the category “SHP - Environment”
Source: RLAM, for 12 months ending 31 December 2021

In instances where we did not oppose the director re-election, this was due to being satisfied with their disclosure; either because another appointment was soon to be announced, there was a recent unexpected departure, or a detailed plan of action was to be presented to shareholders. Globally, 237 companies were flagged for diversity concerns, resulting in 155 votes against or abstain, compared to 159 in 2020. We have subsequently updated our voting policies and engagement approach to diversity for the 2022 AGM season, to ensure we continue to encourage improvements in this area.

Climate

Climate was increasingly on the voting agenda during 2021, as more companies put climate transition plans to a shareholder vote. As this was an emerging and rapidly evolving area, we approached each on a case-by-case basis, evaluating the merits of the proposal, the company's past actions on climate, and the quality and credibility of the climate transition plan. The vast majority of our climate votes were reviewed by a member of our Governance team working alongside our internal climate experts. For the 2022 voting season, we have formalised our voting policies based on what we now expect to see from companies, and also the types of questions we ask when assessing their climate transition plans.

Of the 104 times where it was possible for us to vote on climate-related themes, we supported 49 or 47%, voted against nine times or 9%, and abstained on 46 votes, or 44% of the time. Examples of some of these votes across remuneration, diversity and climate are outlined here.

CASE STUDY

Cineworld Group

In January 2021, we were asked to vote on Cineworld Group's newly proposed long-term incentive plan, which was put forward by its board in response to the impact of the pandemic on the cinema industry. While we acknowledged the ambition of the new award, and its alignment of directors and other shareholders, we had concerns. The plan provided for excessive pay-outs based on a single share price hurdle as the only performance metric used for this award. Such structures, given the wider Covid-19 context and significant share price depression, posed a risk of excessive grants. Furthermore, the factor at which the grant was linked could be outside of the control of participating executives, and instead connected to a broader economic recovery. Based on this rationale, we decided to vote against the proposed plan, contributing to the 30% of total votes cast against the company's proposals.

CASE STUDY

Royal Dutch Shell

In 2021, Royal Dutch Shell (Shell) put forward an energy transition plan for a vote at its AGM. At the time, only a handful of companies had done this, mainly in efforts to address the pressing issue of climate change more closely with shareholders. In Shell's plan, targets were set towards meeting the goal of the Paris Agreement, limiting the increase of the average global temperature to 1.5°C, thus becoming a net zero company by 2050. While we welcomed Shell's approach to publish a strategy for shareholder approval, upon further review, we found concerns with its significant reliance on offsets and carbon capture as part of its long-term ambition to reach net zero across its operations. We were also concerned with the emissions that come from its products - the fossil fuels we burn when we drive our cars. Moreover, we would have preferred to see a stronger push by the company toward its short- to medium-term targets. Therefore, we elected to abstain on the vote.

In conjunction to the proposal, FollowThis – a Dutch shareholder activist group – had also presented a resolution to shareholders regarding its aim for Shell to set firmer targets on its greenhouse gas (GHG) emissions. While this proposal closely mirrored much of what Shell's energy transition plan would incorporate, in our view, FollowThis set more appropriate operational targets and short- to medium-term goals. These were key areas lacking in Shell's original plan and as such, we voted in favour of the shareholder resolution.

CASE STUDY

Ocado Group Plc

In May 2021, we voted at Ocado Group's AGM, having long held several concerns with the company's approach to a wide range of areas, including pay, board composition and diversity. However, recognising our engagement with Ocado earlier in 2021, we commended the company on its actions towards diversity and inclusion. In particular, we noted efforts to improve its board composition with a new board member in the year from a Black, Asian and Minority Ethnic background, as well as its inclusion of different cultures into the workforce through existing programmes and networks. Previously, we had voted against the chair of the nomination committee due to insufficient board diversity, but in recent times diversity has notably improved, albeit with more work required on gender balance. Still, we acknowledged that a new chair of the nomination committee was being put forward for election at the AGM vote. Given the new role, and in light of previous engagement, we voted in support.

However, we continue to have concerns over remuneration, and the potential quantum of awards able to vest for executive directors under the company's value creation scheme. No share awards were banked under the plan during 2021, somewhat dampening our concerns over pay outcomes seen in 2019/20. We chose to abstain on the remuneration report this year, given concerns over maximum award opportunities. We also abstained on the remuneration committee chairman's re-election, seeking further engagement with the company first.

Additionally, we voted against the re-election of Jorn Rausing as non-executive director. Rausing is not considered independent and given Ocado Group's board overall lacked sufficient independence, we felt it was appropriate to object to his re-appointment. We would prefer to see Ocado Group's independence improved. Moreover, we abstained on the incumbent chief financial officer's election due to his joint role as executive and company secretary, as we believe these two positions should be separate.

CASE STUDY

Exxon Mobil Corp

At Exxon Mobil's AGM, there was a proxy contest in which activist shareholder Engine No1 put forward four directors for election on a dissident proxy card. Engine No1 was seeking to address the lack of strategy or expertise on climate change at Exxon. Following internal discussion and engagement with both Exxon and Engine No1, we collectively decided to vote in support of three nominees on the dissident

card at the AGM. As the proxy results later revealed, the three nominees we supported were successfully elected to the board following backing by a large group of shareholders. This vote was unprecedented – it was the first time a slate of climate experts had been elected to a US company through a proxy contest. This was the result of significant and prolonged shareholder discontent with Exxon's strategic response to climate change. Two shareholder proposals regarding Exxon's lobbying practices were also approved. We supported both.

CASE STUDY

Ninety One plc

In August 2021, at the AGM of investment management firm Ninety One, we voted to abstain on its proposed approach to climate change. In our view, the high-level nature of the company's climate transition plans fell short of what we were asking of its peers, namely the inclusion of tangible targets over short-, medium- and/or long-term timeframes. Although we are supportive of this type of reporting at companies, the lack of detail presented by Ninety One was too much of a concern for us. Ninety One had not consulted with shareholders beforehand, however, we managed to engage with the company before voting in order to share our views and discuss specific areas of concern.

CASE STUDY

Fuller, Smith & Turner

As expected in the pub industry, Fuller, Smith & Turner (Fuller's) has sought to support the process of re-building its business since the pandemic. While 2020 was undoubtedly an extremely difficult year for the hospitality sector, Fuller's proposed a radical and unusual executive pay solution that differed from UK market norms. At the company's AGM in September 2021, Fuller's asked its shareholders to approve the introduction of an additional, one-off recovery long-term incentive plan (LTIP), with a quantum of up to 250% of salary (in addition to the regular LTIP of up to 125% of base salary). The main rationale for the plan was that Fuller's board of directors had concerns about the motivation and retention of

executive directors. Following internal discussions, and our engagement with the company during the consultation stage in the second quarter of the year, we reached the conclusion that we would not support a one-off plan of this nature. We noted some concerns with the company's performance, dating back to pre-Covid-19 periods, and we were not satisfied with the choice of performance measures to be used under the new plan. Most importantly, we believed the recovery goals mentioned by Fuller's should have already been incorporated into the existing LTIP, and there was no need for an additional plan increasing the overall quantum opportunity. As such, we voted against the proposed plan, which received around 14% votes against at the AGM.

CASE STUDY

JD Sports Fashion

In line with concerns raised in the past, at the July 2021 AGM for JD Sports Fashion (JD), we again took issue with the company's legacy cash structure of awards and deferred special payments granted to the executive chair. However, given the opportunity to engage with JD before the AGM, we noted the positive introduction of a share-based element under its LTIP for directors, and the commitment that no further special grants would be made. We therefore moderated some of our concerns at the AGM's remuneration report vote and abstained. Since JD also proposed an updated remuneration policy to include the previously mentioned positive element of performance shares, we voted in favour of the new policy. While we would still prefer to see a higher proportion of performance shares to be awarded to the chief financial officer, we acknowledged the company's intention to seek a fully share-based scheme in the future, in line with what is already in place for the chief executive. We noted JD's continued efforts to improve this while working within the confines of its controlling shareholder. Finally, while we had also previously voted against Peter Cowgill as executive chair, due to our preference for the appointment of an independent chair, and concerns over the lack of clarity for succession planning for the roles of chief executive and chair, we chose to support his re-election. This decision took into consideration JD's intent to undertake a search process for a new chief executive in the future, at which time Cowgill will potentially step into a non-executive chair role. We also noted the shortlist of candidates from ethnic minority backgrounds used in JD's board recruitment practices, and the company's interest in further promoting gender diversity more widely in senior roles. Given the open dialogue and current trajectory, we moderated our concerns in 2021.

Our approach to voting

Our UK and global proxy voting policies are publicly disclosed on our website. In applying these policies, we use discretion and have due regard for the particular circumstances of the company, while vigorously pursuing the interests of our customers and clients. We do not auto-vote, but will analyse each resolution to determine whether the company is acting in accordance with our policy and with local best practice.

In making our voting decisions, we aim to be consistent from year to year. If we have previously abstained or voted against a resolution, we will only change our vote to support management where we feel the company has significant changed its policy or approach. We will also consider any engagement we have had with the company in the year, and reflect our thoughts on the progress of this engagement, both our vote and our public and private comments to the company.

Our voting policies are reviewed annually and signed off by the RLAM Investment Committee. When updating these policies, we will incorporate new and emerging best practice, feedback from clients, changes in local governance or stewardship codes, and our own evolution in thinking.

We are strong advocates of good corporate governance, and our preference is to vote 'as a house.' As a result, all our funds vote in the same way. No fund or fund manager may single-handedly change a vote for their fund; any recommendation to change a vote is considered and discussed as a house. To assist with this our voting process is intentionally managed by the RI team, who work alongside investment teams. This is consistent with our collaborate corporate value, whereby we believe that collaboration and discussion across teams on governance and voting issues will result in the best outcomes for customers. We believe this 'house views' approach helps send a clear and consistent message to companies on our governance expectations. It also allows us to engage more effectively to seek improvements to governance standards.

The RI team's role also prevents any bias when voting and ensures a balance between following our voting guidelines and taking the specific circumstances of the company into account. RLAM's RI team is well diversified across gender, ethnic background and nationality, ensuring that there is a wide variety of views on any given issue. The composition of the team can be found on page 76.

Voting policies: updates for 2022

In late 2021, we formally contacted several clients to gather feedback on our proposed voting policy changes for the 2022 season. The clients identified to take part in this outreach were invested in both segregated and pooled funds where RLAM votes on their behalf. Clients were invited to provide feedback on our proposed changes, to offer their views on our general governance and voting approach, and to tell us if there were any areas that we had failed to address or were addressed inadequately.

This feedback was collated and assessed alongside our annual review of emerging market best practice, balanced against internal RLAM views and the needs of all of our clients. We will use this feedback to update our voting policy for 2022. Suggestions included adding additional points to our new 'Climate Transition Plan' section.

We have expanded our approach to diversity to include more specific targets on both ethnic and gender diversity in markets which are now consistently measuring data and/or imposing targets. The following section has been added to our policies for 2022, and details our approach to voting and assessing climate transition plans. Our full voting policies for 2022 are available on the Responsible Investment home page at www.rlam.co.uk

The proxy voting process

The RI team is responsible for executing proxy votes in our equity funds on behalf of RLAM according to a comprehensive set of Standard Operating Procedures. We use Glass Lewis' Viewpoint as our voting platform. All ballots are sent to Viewpoint by our custodians or our clients' custodians. For each agenda item, Glass Lewis applies RLAM's custom voting template, which suggests a voting recommendation that reflects RLAM's high-level voting policies and best practice standards. The RI team then conducts its own review of every vote, considering any unique circumstances facing the company, any engagement we have undertaken with the board, and any discussions with our fund managers. The vote is then approved by a member of the RI team before being dispatched.

Because we vote as a house, the RI team will take care to consider the views of our fund managers, or our clients where reasonably practical, on voting issues before executing a final vote. We routinely flag any controversial votes to fund managers before confirming the vote, to allow time for internal discussion. Controversial votes may include those where we are voting against a resolution for the first time, a potentially high-profile issue, or where we have serious governance concerns. Voting recommendations for the majority of our funds[6] are circulated to fund managers (for their own funds) and internal governance experts before execution.

This provides full visibility of our votes and an opportunity to raise any objections. In the vast majority of cases, any differences of opinion on proxy votes are discussed and agreed collaboratively. In the rare instance where the RI team and the fund managers cannot agree on a vote, it is escalated to our Head of Equities. In instances where the vote concerns funds where the Head of Equities is the named fund manager, the case is escalated to our Chief Investment Officer.

Informing companies of our vote

In cases where we abstain or vote against management in our funds[7], we will use our discretion to write to the companies to inform them of the rationale for our vote. We feel this is an effective tool for sharing our views with the board on key issues where we have concerns, and helps encourage dialogue with non-executive directors on important corporate governance matters.

Climate transition plans: having a say on climate

When analysing climate transition proposals, RLAM will have due regard for the specific circumstances of the company and its trajectory in decarbonising, the available transition pathways for the sector in which it operates, what other members of its sector or peer group are proposing, and alignment of the plans with the Paris Agreement 1.5°C ambition. At this stage we do not believe an overly prescriptive approach to these votes would be useful for stakeholders, and we wish to encourage companies to use this tool as another opportunity to consult with shareholders on its climate plans. We remain open to direct engagement, understanding of the complexities of delivering change, and encouraging of any improvement in companies' climate ambitions.

The following questions are considered when assessing proposed climate transition plans, and form part of our engagement with companies on their net zero plans:

- Does the company disclose emissions and are these independently audited?
- Does the company have a target to achieve net zero at the earliest feasible timeframe?
- Does the company include short- and medium-term targets in its plans (which are aligned with relevant sectoral Paris Agreement decarbonisation pathways)?
- Do targets include all scopes of emissions and commit to only quality offsets for minimal residual emissions?
- Does the plan set specific operational implications and business model transformations required to becoming net zero?
- Does the company commit to scaling-up solutions required to achieve net zero and winding down activities incompatible with its climate goals?
- Are the board, management and employees' incentives aligned to achieving the net zero targets?
- Does the company consider adaptation measures to ensure resilience against locked-in climate impacts?
- Does the company commit to engage with communities, workers, supply chain to ensure a Just Transition?
- Does the company align its lobbying and policy advocacy efforts to its climate plans?
- Does the company commit to aligning its capital expenditures and accounting practices with the goals of its climate plans?
- Does the company report on this to any external body such as a stock exchange, the Prudential Regulation Authority or industry body or association?

RLAM will normally vote against a climate transition plan where:

- Measurable targets have not been set.
- It is not possible to adequately assess the plan or its potential consequences due to lack of detail.
- Governance of the implementation of the plan has not been disclosed.
- The strategy is over-reliant on offsetting and does not drive down overall emissions or does not have impact in the next decade.
- The strategy could have a serious unmitigated negative impact on nature or communities.

RLAM will abstain and engage when it believes the climate transition plan has specific elements that should be improved, but endorses the general direction laid out by management.

RLAM can vote in favour of climate transition plans, and in favour of other seemingly competing climate resolutions from other shareholders, when it supports the general direction of the plan and considers the specific requests in other climate resolutions can help enhance management's climate plans.

The scope of voting at RLAM

We make reasonable endeavours to vote all of our eligible shares in the equity funds where we vote. However, there are occasions where we are unable to vote, or choose not to vote, for example if shareblocking is in place, or if the local market requires us to arrange a local power of attorney. We have controls in place to ensure voting is accurately executed in line with our voting policies, and that votes are submitted in a timely manner. There are occasions where we have to submit votes late after the Glass Lewis deadline date. For example, this may occur if we receive late ballots due to transactions in the funds, or if the local custodian releases the ballots late. In such cases, we will vote at the first reasonable opportunity after the release of research. Any late votes or vote rejections are noted and investigated monthly.

Client-directed voting

Our preference is to apply a consistent approach to voting across all funds where we retain the voting rights. We value the importance of our clients' views on voting matters and we work with our clients to incorporate their views and speak with 'one voice' on key voting issues. In 2021, for the first time, we proactively consulted with our clients on our voting policy and will incorporate this into our 2022 update. Some clients choose to retain their own voting rights and we can advise them on the rationale for our votes so they can consider this when executing their own votes.

RLAM does not currently exercise split voting. Once we have made a decision, we vote all funds the same way. We have chosen to do this intentionally because we believe we are able to send a stronger and more consistent message to companies. This approach supports our view that voting is an important engagement and escalation tool, and an essential part of the ESG integration process, as illustrated below. It also means that when we vote, we have the full weight of assets behind us when communicating our stewardship perspective to companies. However, we recognise that some asset owners would like the option to vote differently to their asset managers or to issue an 'expression of wish' over their share of the pool.

In 2021, we conducted an analysis of what is required to facilitate split or client-directed voting at RLAM. This review found that the changes are significant for our business. Therefore, while this is not our preference, we aim to work with clients to agree a voting approach that works for them, where they feel actively engaged in voting issues, while upholding our requirements to treat customers fairly and execute votes in a well-controlled and efficient way.

Vote disclosure

We think transparency is important. Our votes are disclosed monthly in arrears on our website in an online searchable database.[8] We proactively disclose the rationale for any votes against management or where we abstain on a resolution. We do not routinely disclose our voting rationale when we vote in favour of a resolution, as often these votes can be routine, but we are happy to provide an explanation to clients or other stakeholders upon request.

Proxy voting research

We utilise the services of IVIS and Glass Lewis to impart information, highlight controversial ballot items, and provide a platform to execute our proxy votes. However, these voting services are there to inform only. RLAM will use its own voting policy to make the final voting decision, reviewing all votes before execution. We do not rely on external proxy voting advice; we apply our own custom voting policies and we do not rely on auto-voting. Each vote is reviewed and submitted by a member of the RI team.

Regular meetings are held between RLAM and Glass Lewis throughout the year, both on a scheduled and ad hoc basis, to discuss emerging issues and service levels. Several operational issues were experienced during the 2021 proxy voting season, and late ballots and agenda changes led to some very tight voting deadlines. These issues were discussed at length with Glass Lewis to understand the causes and what could be done to remedy any problems. Most of the issues were one-off in nature. However, for some issues, such as voting deadlines outside of working hours which led to rejected votes, a 'fix' was subsequently put in place by Glass Lewis to ensure it would not happen again.

During 2021, votes cast at only one company meeting were lodged incorrectly. Due to an error with the mapping of a meeting agenda between the various stages in the proxy voting chain, the votes RLAM cast were incorrectly submitted for one of our client funds, but were correctly submitted for all other funds which held the same stock. While this error would ordinarily have been rectified before the meeting, the late change to the format outside of working hours on a Friday prevented this from happening. Following several discussions with our proxy voting provider, we were satisfied this was truly a one-off event, and our client was notified as soon as possible of the error.

Stock lending

We lend stock on a number of our equity and fixed income funds. We have a standing instruction with our custodian, HSBC, to recall shares prior to a vote to ensure we are exercising our full voting power at shareholder meetings.

Bondholder voting

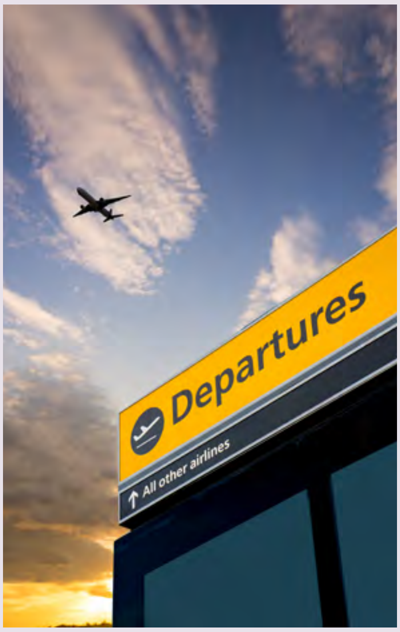
Given RLAM's disproportionate exposure to secured and highly covenanted bonds, this tends to give us a greater degree of creditor control than is typical, with companies having to put any proposed changes to these bond terms to a vote. As bondholders, we do not have the right to vote at the annual shareholder meeting (as equity holders do), but we sometimes have the right to vote on issues that affect our credit holdings. These votes often take the form of extraordinary meetings, where we are asked to grant consent for changes that can impact our holdings in a given company. Because there is no set formula to these meetings, and the issues proposed are primarily financial, everything is approached on a case-by-case basis.

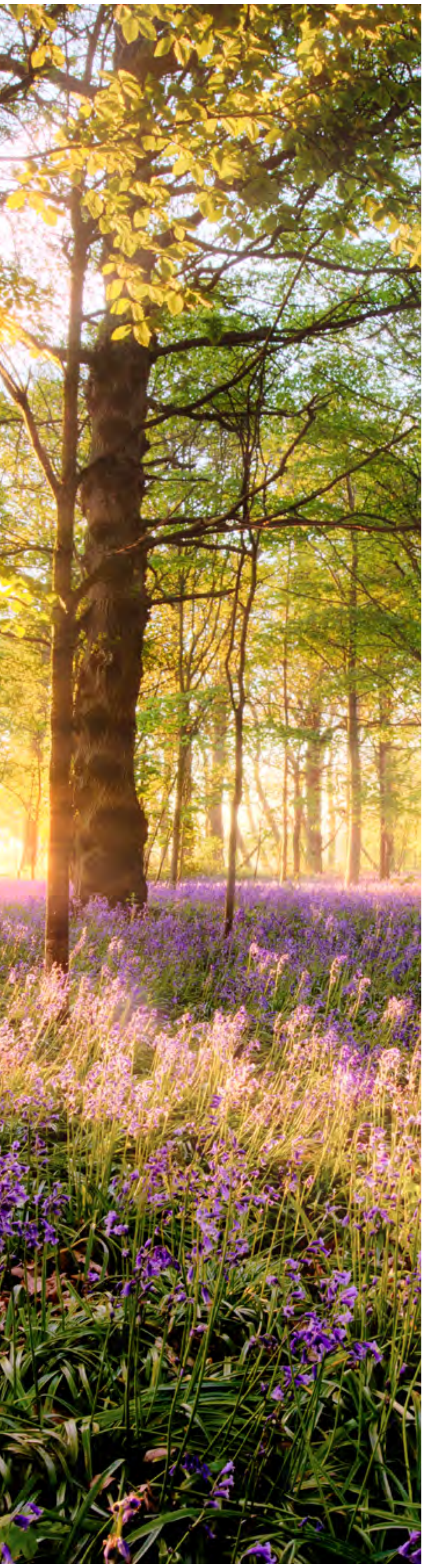
In 2021, there were a limited number of companies where we either gave some form of consent or we exercised our voting rights as bondholders. Due to the nature of our lending position, we were also often able to engage directly with the company ahead of any solicitation activity, something which is still relatively unusual for bondholders. Because of the direct financial impact of these votes, we view all as significant, and we therefore provide our credit clients with an overview of any voting activity on a quarterly basis.

Heathrow

Following the initial impact of Covid-19 in 2020, many issuers sought waivers from lenders to support them through extraordinary circumstances. With the reopening of economies and significant government support, many sectors were able to return to levels of operation and profitability somewhat resembling 2019. However, one sector that continues to face significant disruption due to the pandemic is travel. While our clients' funds generally have limited exposure to the travel industry, we do invest in secured airport bonds.

During summer 2021, Heathrow sought to secure further bond waivers to pre-empt a potential covenant breach should passenger volumes recover more slowly than expectations. In line with our approach to Covid-19 waivers in 2020, we were prepared to support businesses through exceptional shocks outside their control, while ensuring, in the first instance, that our clients' position was protected. Following engagement with the airport, alongside other large lenders through the Investment Association, we reached agreement on waivers in return for securing an increase in liquidity that the issuer was required to maintain, providing further protection should international air travel suffer depressed demand over the medium term.





ESG integration

In 2021, we continued to deliver on our commitment to build and invest heavily in our internal capabilities to consume, analyse and interpret new data sources to help support our investment decisions. In doing so, we appointed Eli Haroush as RLAM's first Head of ESG Research. Eli's skills and expertise will enable us to build upon our ESG research function, and continue to cement our credentials as a responsible investor.

In line with our 'unconstrained' investment philosophy, we consume a wide variety of information and in different formats. Given many ESG issues are qualitative in nature, there is a significant benefit in being able to quickly search and filter information that is most relevant to us.

To support our investment teams, RLAM has an in-house team of professionals dedicated to responsible investing and ESG subject matter expertise. This team helps support fund managers and analysts to embed ESG risks and opportunities across equity, fixed income, and property investment processes. Having an in-house team is essential for providing effective and relevant ESG analysis, and the knowledge and expertise of this team supports and enhances the financial and ESG evaluations undertaken by our fund managers and analysts. In our experience, 'off-the-shelf' ESG research from third-party providers does not always provide the nuance or context required to ensure ESG analysis adds to the investment process, and is not simply a 'box-ticking' process.

We use a mix of internal and external ESG research to inform our investment decisions. By overlaying third-party research with our bespoke in-house expertise, we can evaluate and monitor principal adverse ESG risks relevant to a specific asset class or fund. For external research, we use various third-party service providers and sell-side broker research. We monitor the quality of our investment research providers quarterly as part of our MIFID II commitments, including our core ESG data providers. Fund managers and analysts vote each quarter on the brokers or research firms that provide the most value to them. This is done through a systematic and transparent process managed by our Head of Investment Business Management. If providers do not deliver good quality research, contracts will be reviewed with a view to altering or cancelling them. This ensures we are getting the best value for money from our brokers and research providers. Much of our in-house research activity has been centred on providing the means to empower and enable fund management teams to integrate ESG into their processes. This has meant tackling head-on the lack of data availability relevant to fixed income assets. Through research, we have developed an in-house reporting solution by which we can more accurately evaluate climate risk within fixed income portfolios where third-party data providers have limited coverage.

Over the past year, we've been developing our ESG Dashboard, which serves as a central repository for housing ESG research, details on engagements, proxy voting and specific material ESG risks at the issuer level, as well as entity scores. This dashboard exists as a platform for providing centrally-stored ESG insights on issuers, and will facilitate the further integration of ESG analysis into our investment strategies. The data includes that from third-party ESG data providers, but is supplemented by our own internal research.

As you make your way through this next section of the report, you'll learn more of how bespoke research is being tailored to consider the specific characteristics of each asset class to support great investment outcomes for our clients.

ESG Dashboard

One of the key strategic objectives for the RI team is to deliver added value through bespoke and bottom-up ESG research.

Differences in definitions, or around what does and doesn't constitute a responsible or sustainable investment, can make it difficult or counter-productive to use 'off-the-shelf' third-party ESG scores. And, when it comes to ESG scores, a lack of alignment in definitions and beliefs will mean that a vendor's methodology might create scores that aren't necessarily reflective of our own beliefs.

In last year's report, we announced the build of our bespoke ESG Dashboard, to act as a central repository for ESG and climate research. The first iteration of the dashboard was completed in 2021, and includes data we receive from third-party data providers, supplemented with our own internal research and data, and details on engagements and proxy voting.

Critically, the dashboard consists of bespoke, bottom-up research, opinions and ESG scores that gives our fund managers instant access to the knowledge and experience of our ESG experts, allowing for more efficient ESG integration. Importantly, it also allows us to share insights and views across investment teams and asset classes, so that ESG information gathered in one area of the business can be disseminated and shared with others. Our aim is for the dashboard to provide a profile of a company's performance on ESG and

Figure 12: Proprietary ESG-C scoring methodologies

This graphic is indicative of the ESG factors considered within each pillar, but is for illustrative purposes only.

climate change considerations, to the extent the information is available, and to act as a base for portfolio managers to develop their views when making investment decisions.

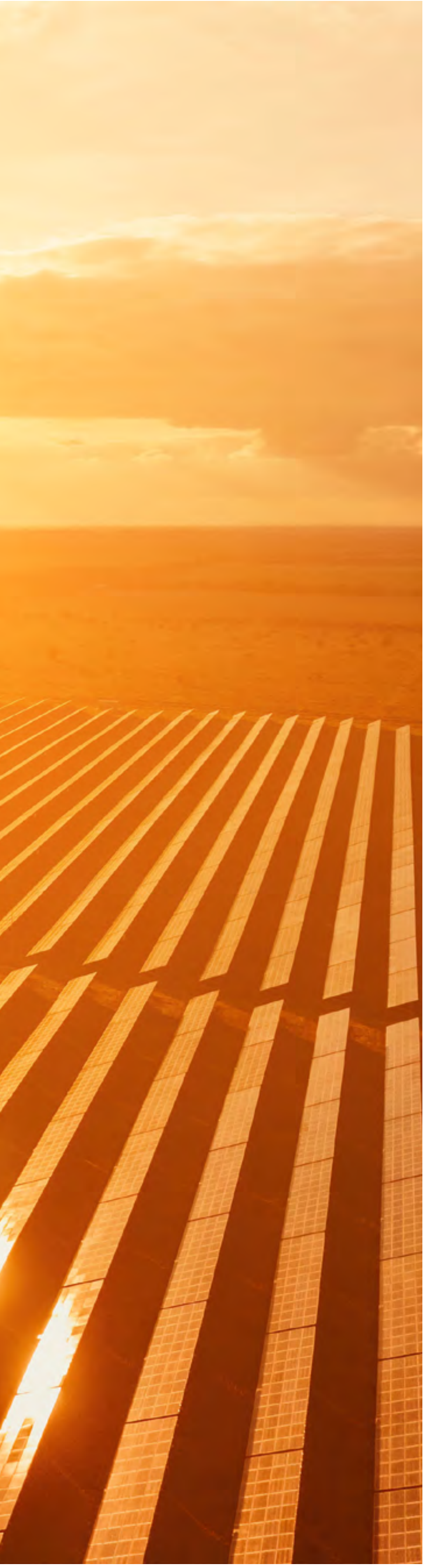
Introducing our Responsible Investment Assessment

As part of the ESG Dashboard, we have developed a proprietary scoring model, using the spectrum of information housed in the dashboard to construct company or issuer-level scores – our 'Responsible Investment Assessment' or RIA. This model scores issuers and investee companies on their performance across four distinct pillars: Environment, Social, Governance, and Climate. This reflects the importance we place on tackling climate change, which we see as separate and distinct to other environmental issues. It also includes a 'controversies' overlay.

Our scoring methodologies are illustrated in the diagram above.

While we are still early in the development and roll-out of our scoring framework, we believe that over time it can be used in risk management and reporting ahead of increased disclosure requirements and regulatory scrutiny on non-financial performance. We think it is important to use both backward-looking and forward-looking factors, considering past performance and the potential future performance of issuers, and we have incorporated this thinking into our scoring framework.

Developing bespoke scores tailored to our own values and way of thinking also ensures we offer something unique to our clients. We will be looking at how we can make the assessments more scalable and decision-useful, particularly for asset classes with poorer data quality such as fixed income. We will also continue to embed and reflect RLAM's own views and opinions on ESG matters into these company assessments, ensuring we maintain the right balance between quantitative, data driven information and qualitative bespoke insights from across our investment teams.



Sustainable funds

Sustainable equities

The RLAM Sustainable Equities team believes that owners and managers of capital can, and should, support a sustainable economy. The clearest way to do this is to invest capital in companies having a positive impact on society. This impact can be through the tangible net benefits of the products and services they provide, both for their customers and for society. It can also come from how a company looks after its physical and digital assets, and with the people who work for it, buy from it, supply it and otherwise interact with it. And where there are adverse impacts, providers of capital should aim to drive positive change through proactive engagement and ownership.

Despite growing interest in integrating ESG factors across public and private markets, we continue to believe that investing in the way we do captures an exploitable market inefficiency. As investors who take a 'sustainability-first' approach, we can identify investment insights that others may miss.

All the companies we invest in deliver a clear net benefit to society and a compelling investment case. A common approach to sustainable investing is to use themes or the likes of the UN's Sustainable Development Goals (SDGs). However, we believe that a bottom-up process that picks stocks on individual merits, rather than a top-down approach such as using SDGs, will deliver better long-term results for investors. Even so, the companies we invest in can often be grouped under certain themes, with the nature of our investment process changing these over time. As an example of this, the Covid-19 pandemic has accelerated how society and businesses are evolving – therefore driving change in the themes we see in the funds, including the emergence of the Hygiene & wellbeing theme in 2021.

We do not explicitly factor the SDGs into our ESG framework or investment decisions; however we believe our approach to sustainable investing is compatible with, and supportive of these goals.

Many of the themes in which our companies are grouped are consistent with the underlying ambitions driving the SDGs.

These are our current sustainable themes:

Circular economy

If economic growth in the 20th century was driven by extraction, production, consumption and disposal, the more circular economy of the 21st century will emphasise the re-use, recycling, remanufacturing and subsequent consumption of our planet's scarce natural resources. From improving recycled inputs to cutting energy requirements, this theme is about doing more while using less.

Community funding

Certain financial institutions focused on consumers and small businesses have a central role to play in helping to foster and improve local communities. These organisations offer simple and socially useful financial services to the people who live and work around them.

Figure 13: Sustainable equities themes

- Circular economy
- Community funding
- Digital world
- Energy transition
- ESG leadership
- Financial inclusion & resilience
- Hygiene & wellbeing
- Industry 4.0
- Next-generation medicine
- Social & environmental infrastructure
- Sustainable transport

Digital world

The exponential growth in the amount of data in existence, and increased requirements for computing power, have only been accelerated by the pandemic. Today, often enabled by advances in artificial intelligence (AI), data and components enabling the use of data are digitising the world around us.

Energy transition

Most energy consumption during industrialisation came from transforming fossil fuels into energy and carbon. Renewable energy uses sources which do not require transformation (such as wind) or are virtually unlimited (such as the sun) to power the homes, businesses and transport of the future, in a manner which is far less damaging to our climate.

ESG leadership

A small number of companies in our portfolios are able to demonstrate a net benefit through their exceptional environmental and social performance, backed by best-in-class corporate governance. This extends beyond their direct operations to their interactions with their supply chains, customers and wider stakeholder base.

Financial inclusion & resilience

The future of finance, from next-generation payment platforms to ensuring a better future, is driven by a desire to empower consumers. These businesses will also extend access to financial services to the surprisingly high portion of the world who are unable to access the basic financial structures taken for granted in the more affluent regions of the developed world.

Hygiene & wellbeing

While fending off everyday bacteria and regular exercise might seem more mundane than the latest medical advances, small steps can have a big impact. Companies in this theme provide the ingredients and finished products to improve our health and wellbeing, year in, year out.

Industry 4.0

Steam was industry 1.0, electricity 2.0, and the computer 3.0. Industry 4.0 is about data, and using it to bring together the physical and digital worlds to enhance the efficiency of a range of existing industries.

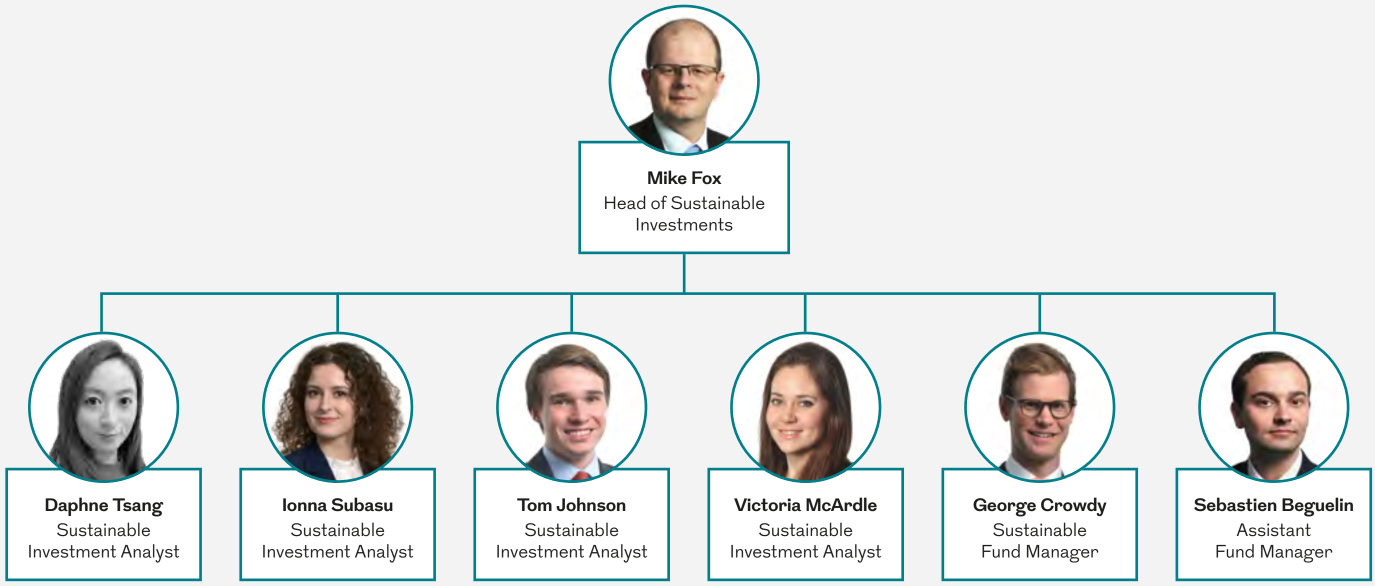
Next-generation medicine

Today's methods of diagnosing and treating disease are often slow, impersonal or ineffective. Extracting more accurate and timely health information from our bodies, and making use of our individual genetic profile, could present the opportunity to significantly enhance the standard of healthcare and transform lives for those afflicted with both common and rare diseases.

Social & environmental infrastructure

The economy of the future will require renewed investment in not just digital but also physical infrastructure. From cleaner, more biodiverse water systems

Figure 14: The Sustainable Investment team



Mike Fox
Head of Sustainable Investments

> “All the companies we invest in deliver a clear net benefit to society and a compelling investment case.”

to advanced, net-zero ready logistics facilities and future payment networks, this theme will be the backbone of the future economy.

Sustainable transport

Transportation remains one of the major sources of pollution and contributors to climate change through the combustion engine. Electric and autonomous vehicles offer the opportunity to move transportation into a cleaner, safer future.

As a team, we have a bottom-up approach to investing. This includes extensively researching the sustainability credentials of every potential new investment, prior to its inclusion in our investment universe. Once approved, we will equally weight the positive net benefits of a company's products and services, its corporate governance and environmental and social management alongside our financial analysis when deciding on its place in our portfolios. This process draws on the expertise of the fund managers and analysts who run RLAM's sustainable funds, supplemented by our RI team and our external Advisory Committee.

This committee is made up of experts in areas such as charities, corporate governance, academia and sustainable investment. The Committee meets quarterly to review and oversee the investment universe to ensure it is in accordance with the our approach.

We do not rely on external ESG research. Everyone is empowered to share their expertise, and everyone has an equal voice in the approval process. The Advisory Committee provides expert external insight and challenge on the companies we screen, emerging ESG topics, considerations for the funds, and performance.

The following case studies are examples of companies screened during 2021, and include an explanation on why they are held within the Sustainable funds.

CASE STUDIES

Trane Technologies PLC

Today, 15% of the world's carbon emissions come from heating and cooling buildings, while nearly another 10% comes from global food loss. Trane brings efficient and sustainable innovations to these areas, developing new and better ways to heat and cool homes and buildings, and to transport food and medicine. These solutions should help Trane reach its goal of reducing its customers' carbon emissions by one gigaton (2% of the world's annual emissions output) by 2030.

In practice, these innovations can be found across its product range, from high-efficiency EcoWise chillers designed to cut the use of global warming potential (GWP) refrigerants, along with air and water-cooled chillers that help cut energy and operational costs. Meanwhile, Trane's transport refrigeration portfolio offers a broad range of zero and low-emission solutions, including a new all-electric unit powered by solar panels. Trane also gives its customers the information to make further improvements. This includes connected building services that enhances performance through a building's life cycle, and transportation telematics offering real-time visibility to temperature-sensitive cargo and equipment during transportation.

Nvidia Corporation

Growth in computing power and efficiency has been an important part of making the global economy digital. From technology to healthcare, financial services, academia, and local government, almost every industry is increasingly reliant on data.

Processing and understanding these inputs require both significant computing power and software capability. Having traditionally focused on areas such as graphics, Nvidia's microchip designs are well suited to the next generation of AI-led computing, particularly when training AI networks to solve problems, or using it to assess and analyse very large amounts of data and to better recognise unstructured real-world inputs. Nvidia's microchips can be found in the latest supercomputers tackling genome sequencing and AI-led drug discovery, and are increasingly underpinning advancements in areas such as autonomous driving.

Schneider Electric

As the world continues to pivot towards cleaner forms of energy, such as renewably generated electricity, delivering this power in a safe and secure manner will be vital. Schneider Electric is a global leader across energy management – from low voltage power meters and monitoring to essential solutions for medium voltage infrastructure and data centres. The company also enables the automation and remote control of machines, manufacturing plants and manufacturing sites through its Industrial Automation segment. Over time, Schneider is aiming for 75% of sales to come from its 'green premium' programme, while it has set strong targets across hazardous waste, its own environmental profile, and areas such as diversity. Schneider has a strong culture of improving safety performance, making the cut in leading external surveys and fostering a spirit of ownership. Over half of eligible employees are shareholders and together employees own more than 6% of Schneider's shares.

HDFC Bank Limited

In India, access to reliable banking services has historically been limited outside of urban centres, and one in four women did not have a bank account in 2017. HDFC Bank, established in 1994, is a leading private sector bank in India with both the scale and sustainability-focused principles to drive meaningful change by improving access to finance.

HDFC has expanded its rural coverage, with 22% of branches in rural locations and a further 31% in semi-urban areas, and has also focused on material lending to micro, small- and medium-sized enterprises within its business loan book. Through its Parivartan initiatives, HDFC's sustainability agenda also moves well beyond the old-school 'Corporate Social Responsibility' common to both domestic firms and western multinationals operating in India. Its digital 'milk to money' ATMs have brought more people into the financial system and have been deployed at scale across over 400,000 dairy farmers. HDFC also offers stronger and safer operations than some of its peers, with complaints per transaction materially lower at its ATMs than those of other banks.

Sustainable credit

With sustainable investment at the top of the agenda within the equity market, investors may overlook the opportunities that fixed income markets present. However, we believe fixed income markets offer a rich seam of opportunity for investors looking for socially positive investments, without compromising returns.

Investing through debt gives us access to critical areas of the market that are largely inaccessible to equity investors. This means we can support under-researched socially beneficial organisations, and target superior risk-adjusted returns for our clients.

We have a clear bottom-up sustainable research process. For every company we own, we evaluate whether they provide a net benefit to society – either through their products or services or how they manage the ESG risks in their business. Our approach is bespoke and differentiated – relying on an experienced multi-disciplinary team of people working collaboratively across asset classes. Unlike equities, credit risks are asymmetric; upside returns are capped, while deterioration in a borrower can lead to full capital loss. We therefore manage our sustainable portfolios with a preference for bonds that offer legal protection wherever possible, for example, via security and covenants, which can reduce downside risk should a company get into financial difficulty. For those funds that focus on sterling credit markets, evidencing the significant inefficiencies in sterling credit markets means we believe we can embed these features in portfolios without sacrificing yield. We also look to run highly diversified portfolios to reduce stock-specific risk.

In 2021, we added to our sustainable fund range by launching the Royal London Global Sustainable Credit fund. This integrates the expertise of our Sustainable and Fixed Income investment teams. It builds upon our experience of running this strategy on a segregated basis over the past two years, and makes this investment proposition available to a wider client base. While some sectors and issuers are well represented globally, such as banks and insurance, others are essentially specific to certain markets (for example, social housing in the UK and technology in the US). Going global allows us to diversify across more themes, more sectors and more issuers, thereby reducing the idiosyncratic risks that we would otherwise face.

As with our sustainable equity funds, our themes are a consequence of our process, not an input or criteria. Currently, around three-quarters of our sustainable credit holdings fit within one of the key themes outlined, with the remaining meeting our 'net benefit' or 'ESG leadership' tests.

Figure 15: Sustainable credit themes

- **Community funding**
- **Social & environmental infrastructure**
- **Decarbonised economy**
- **Social housing**
- **Financial inclusion & resilience**

Current sustainable credit examples

Social housing

MORhomes is a specialist lender to the UK social housing sector. It borrows from capital markets and then lends to smaller housing associations that would otherwise be unable to access bond funding. Lending in this way provides us with strong covenants and security, while helping to finance the provision of affordable and social housing to less affluent parts of the country.

Decarbonised economy

Eversholt is a ROSCO, or rolling stock train company, that owns and leases out trains used in the UK. Our bonds benefit from security over these vital transport assets, as well as having meaningful covenants to protect us should the company encounter financial difficulties. Through an extensive engagement project (see 'Fixed income engagement' adjacent) we have gained greater insight into Eversholt's plans to phase-out the use of diesel trains over time, resulting in the company being well positioned for the full electrification of its fleet – providing safer, cleaner transport.

Infrastructure

Uliving Essex is building new student accommodation for the University of Essex which will be constructed to the highest energy efficiency standards. The bonds have an AA credit rating, and with clear visibility on the affordability of rents over the life of the project, the bonds benefit from security over the project as well as protective covenants. We believe the funding of this project leads to the provision of vital social and environmental infrastructure within the higher education sector.

Financial resilience

Legal & General is a company with a strong balance sheet and a high solvency ratio, but also benefits from boardroom diversity, good corporate governance and strong ESG credentials. It provides insurance and protection to help people experiencing life shocks or financial difficulty.

Community funding

As a 'mutual', Leeds Building Society provides savings and mortgages to 700,000 members and has been operating for almost 150 years. It has no shareholders, making bondholders the only route to support this vital sector. Our lending, while slightly junior in the capital structure, provides an attractive yield within this not-for-profit segment of the community funding universe.

Fixed income engagement

Some investors assume corporate engagement is best left to equity markets, with bondholders merely a passenger on a company's journey. At RLAM, we believe targeted engagement by bondholders is not just possible, but beneficial to all stakeholders. While our points of influence are more limited in relation to large global companies, our focus on secured debt and more highly covenanted issues within many of our funds gives us greater access to company 'decision-makers'. Consequently, this allows us to have a greater impact, both in relation to bond structures and ESG considerations. Where relevant, we will also use the full weight of our debt and equity holdings to engage with companies to change and improve corporate ESG performance.

Shalin Shah
Senior Fund Manager

"In the 'arms race' to demonstrate ESG credibility, investors can be tempted to become too fixated on 'green' labels, regardless of whether these labels stand up to scrutiny. This can lead to good sustainable bonds being ignored."

Rachid Semaoune
Senior Fund Manager

"We capture value by seeking out less obvious opportunities that are undervalued by the wider market, but offer true sustainability in the broader sense, without compromising on investment returns."

James Clarke
Senior Fund Manager

> "ESG factors can be a 'deal breaker'."

Equity funds

Global equities

RLAM's Global Equity team believes integrating ESG issues into our investment process strengthens both investment performance and our commitment to being a responsible investor and good steward of our clients' capital.

- **Investment performance – lower risk, higher returns.** Future wealth creation and valuation are directly impacted by ESG issues, often in a complex and hard to measure way.
- **Responsible investment – be the change.** ESG assessments support more effective engagement, which in turn can influence a better future for our environment and communities. Our ESG integration also enables bespoke client solutions and reporting.

Investment process

We integrate ESG issues into all stages of our investment process (Figure 16) and collaborate with the RI team. We use shared ESG data providers, review thematic ESG research to support our stock-specific expertise, and participate in monthly independent RI portfolio reviews focused on targeting both individual company risks and wider societal risks. We also work closely with the RI team on voting and engagement to support our client propositions.

1. **Measure and classify**: data and technology are the foundation for our investment approach, driving our investment insights and idea generation efficiency. The team integrates an increasing breadth of ESG data with its proprietary Life Cycle analysis.
2. **Identify and value:** the team spends most of its time and energy in these stages, conducting deep-dive qualitative and quantitative fundamental analysis to evaluate future wealth creation potential, and to value the most attractive company-specific opportunities.
3. **Implement and monitor:** we ensure client needs are represented at the portfolio level, such as alignment with the EU's SFDR where relevant.

Wealth creation

Our wealth creation test uses quantitative and qualitative analysis to assess whether companies are pursuing the optimal strategies, business model and management incentives. ESG factors can have a critical impact on the wealth creation analysis. We believe ESG materiality is both key to the evaluation and very complex in practice – our Life Cycle concept (Figure 17) and qualitative analysis can add nuance and value where simple quantitative ESG data struggles. In situations where ESG risks are deemed very material, and the company is unwilling or unable to mitigate these risks, ESG factors can be a 'deal breaker', and the company will be avoided in client portfolios.

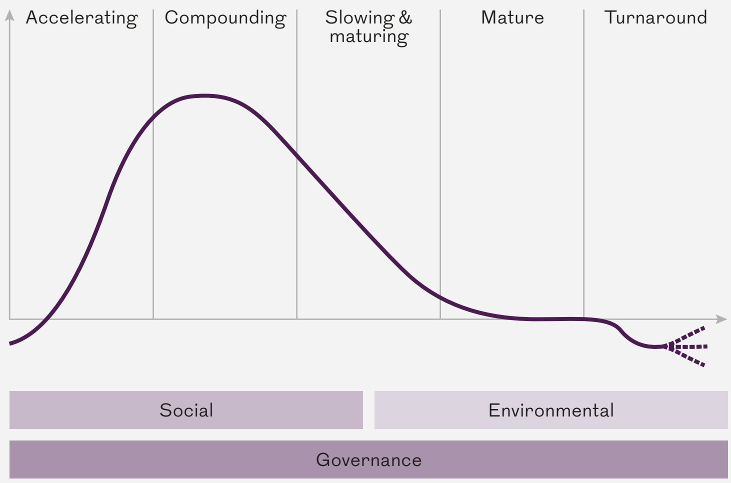
Valuation

Many businesses with attractive forward-looking wealth creation potential also have material ESG risks or rewards. We incorporate these ESG factors into our valuation scenario analysis. For example, carbon transition risks and carbon taxes can be explicitly modelled into 'bear' (downside) valuation cases, and this can directly change our ultimate investment decision.

Figure 16: RLAM Global Equity team investment process

Investment process	ESG focus
Measure 3,500+ companies	ESG 3rd party data (SASB) framework
Classify 3,500+ companies	Risk flags Climate: transition + physical Life cycle specific
Identify c.600 companies	Stock specific + thematic Materiality: ESG assessments Wealth creation test: positive, challenging, avoid
Value c.200 companies	Fundamental valuation: scenario analysis
Implement Portfolio	Key ESG risks including climate Client reporting & attribution Bespoke solutions
Monitor Portfolio	Stock reviews Portfolio reviews

Figure 17: Life cycle process



Dominant issues tend to vary by Life Cycle category

Source: RLAM, for illustrative purposes only

Portfolio holdings are subject to change, for information only and are not investment recommendations.

CASE STUDIES

Sika

Sika is a Swiss-based leading chemical company that specialises in systems and products used in the construction and motor transport industries. We consider its sustainability strategies, especially in reducing these industries' carbon footprints, to be robust. In addition, Sika continues to allocate capital towards products that help its customers meet sustainability targets – which is especially helpful in industries linked to high GHG emissions. This in turn is driving above-average compounding growth and improving margins, and we do not think the financial opportunities are fully reflected in the current share price.

Positive

Boskalis Westminster

Boskalis is a Dutch marine services company with key businesses in port dredging and offshore engineering. Although there are inherent climate challenges related to emissions from its naval vessels, Boskalis is transitioning its assets to more sustainable fuels and helping shape the industry discourse. At the same time, the company can use its skillset to help renewable offshore wind generation installation and maintenance, and there could be significant long-term demand for climate adaptation-related coastal protection. We consider the current market valuation of the company focuses too much on the risks over the opportunities.

Challenging but attractive

Bukit Asam

Bukit Asam is an Indonesian thermal coal mining company. While the financial opportunity can seem initially attractive, given low-cost operations and near-term demand from domestic power generation, we think the longer-term risks from a regulatory regime change are significant, given the substantial emissions related to thermal coal power generation. Bukit Asam is an example of a company we are avoiding in our portfolios given climate mitigation risks, highlighting both our long-term outlook and application of SFDR in our Article 8 funds.

Avoid

Challenging but attractive

In global equity markets, we believe companies with material ESG risks can be attractive investments if:

- Risks are understood and acknowledged.
- The company is willing and able to mitigate these risks in future.
- Material ESG rewards also exist.
- Overall wealth creation potential is attractive.
- Valuation is attractive even when risks are incorporated in 'bear' scenarios.

Also, these companies are often excellent candidates for company engagement. This supports our clients' desire for RLAM to be a responsible investor, and can also lead to better outcomes for our environment and communities.

EU SFDR Article 8 fund launches

A notable development during 2021 was the extension of our product range through our Irish funds vehicle, launching two Global Equity funds which are Article 8-compliant in the new EU SFDR framework. We promote climate mitigation, focusing on companies willing and able to transition to a net zero world by 2050, and have material and tangible 2030 plans to give confidence in the longer-term pathway. Related to this, we have built a dataset on global holdings as we believe forward qualitative analysis is an important way of establishing transition risks and opportunities.

The stock examples on page 47 highlight climate challenges and illustrate that we are willing and able to engage in complex areas if we see true underlying net zero potential.

UK equities

RLAM is a leading investor in the UK stockmarket, with a range of long-established active strategies managed by our highly experienced UK Equity team.

As fundamental stock pickers, direct engagement with companies and deep understanding of business models and ESG risks and opportunities lies at the heart of the team's approach to ESG integration. The team's long-term investment horizon, combined with RLAM's long tradition in stewardship, has resulted in strong relationships with many of our investee companies. This makes us a trusted voice on corporate governance and increasingly climate matters too, making us a valuable partner with which companies can discuss their sustainability agendas. This gives us great access to management and, in turn, better ability to gain valuable insights into how companies are managing key ESG issues.

We assess ESG factors to identify where they might be a material risk to a company. This materiality could take many forms, for instance – being at risk of stranded assets from thematic or technological change; subject to severe reputational risk; being at risk of litigation, legislation, or fines; being at risk of struggling to retain or recruit staff due to poor practices, or subject to corruption due to poor governance. We will also consider whether there are any upside benefits of a company's ESG performance. Some companies derive competitive advantage from better-than-average performance on ESG factors, resulting in better financial performance and/or higher valuation of its cashflows. The ESG assessments we make are qualitative in nature and give us a deeper understanding of the businesses we invest in, and the risks in some of the companies we chose to avoid. We will seek to increase investment where ESG factors give us greater confidence in the long-term management and success of the business.

We do not operate an exclusion policy based on the industry that a company operates in, but we would avoid new holdings, or dispose of an existing holding, if we felt that ESG risks were too high, or not compensated for by the valuation of the shares. Where there are ESG issues in a company, but we think that they are fairly reflected in the company's valuation or that the ESG factor could be mitigated or improved, we would look to stay invested and engage. As equity holders, we have a significant stewardship role which is best achieved by engaging with management teams. Our frequent meetings with companies enable us to discuss and influence corporate strategy on ESG issues. We aim to meet not just the executives at companies, but also non-executive directors and chairs. Our stewardship activities are also enacted through our voting, as we vote on all our holdings at each shareholder meetings.

Our in-house RI team plays an important part in ESG integration, providing expertise on ESG issues, engagements, and regulations, both ad hoc and in quarterly review sessions, to ensure that ESG risks are properly factored into company and portfolio analysis. ESG specialists attend company meetings alongside fund managers to discuss ESG factors, and on request, undertake portfolio-level ESG analysis to highlight risks and areas for engagement with holdings.

CASE STUDIES

Croda

Croda is a good example of a business where we have invested behind a strong ESG-driven competitive advantage. Croda is a chemical business whose products are small but vital ingredients in many things that most of us use on a daily basis, for example in toothpaste, shampoo or detergents used for clothing. Croda has long sought the highest standards of supply chain provenance and has a stated aim to derive as high a proportion of its products as possible from organic sources (this figure is currently around 65% but Croda is targeting 75%). This gives the company a genuine competitive edge, both in terms of pricing power and winning new business, as it allows Croda's customers to showcase the quality of their ingredient supply chain to their own end customers.

Mid and small cap approach

As managers of the UK Mid-Cap Growth and UK Smaller Companies funds, we are long-term investors allocating capital to high quality companies which can sustainably grow profits and ultimately become significantly larger in time. Stocks like Dechra, which specialises in veterinary pharmaceuticals and information technology consultancy firm Aveva, were bought as small caps many years ago and have since grown into FTSE 250/FTSE100 constituents. Both have done so through acting as responsible allocators of capital, creating a strong corporate culture and looking after all stakeholders.

Our investment approach focuses on finding 'quality compounders' – quality growth stocks capable of compounding shareholder value on a consistent basis. We look for key fundamental attributes such as scale, innovation, barriers to entry, management, and other unique assets. As responsible investors, we also carefully consider ESG factors such as corporate governance, the supply chain, employee culture and churn, and the long-term environmental impacts of a company's operations. This helps us form a decision around the sustainability of the company's business models and potential profit growth.

However, the small- and mid-cap universe is complicated by the nature of these companies, which are often less mature, more entrepreneurial and have smaller cost infrastructures. This can affect data quality around ESG factors. Therefore, a fundamental attribute we look for is the alignment of management with shareholders. In fact, much of our time from an ESG perspective is spent on assessing good corporate governance and appropriate remuneration structures. It is also where we have the most transparency in terms of the information we can access. We seek input and feedback from our in-house ESG experts and work with them to meet with and interrogate management and the board. Ideally, we try to make sure there is appropriate challenge to the executive directors on the board and ensure that management are rewarded for meeting and beating market forecasts, rather than being rewarded for failure.

A good example of this is a fast-growing digital transformation group held in our portfolios. The company helps corporates navigate towards cloud-based software systems and architecture. The pandemic has accelerated the structural trend towards digitalisation and connectivity, and enabled the company to beat market expectations and increase forward guidance around organic revenue growth. The company planned to introduce a new share incentive plan based on hitting a market capitalisation target within the next four years.

From a portfolio management point of view, we liked the ambition of the plan, its targeted growth rate, and the recruitment/retention rationale. However, working in conjunction with our corporate governance specialists, we debated whether the choice of market cap/share price was the optimum performance metric. We therefore engaged with company's board to discuss whether other metrics such as earnings per share, cash conversion and profit margins should also be included, and whether the holding period should be longer. The company decided to withdraw the plan and is re-evaluating its approach, and this is just one example of many deep engagements we are conducting in close collaboration with the RI team to ensure alignment of management with shareholders, and ultimately with our clients.

Henry Lowson,
Head of Alpha

UK all cap portfolios

For 'all-capitalisation' portfolios such as the RL UK Growth Trust, we see our role as investing client capital in a range of attractive businesses capable of growing and delivering positive returns over the long term. To make a judgement on whether any one company is suitable for the fund, we will assess a range of issues including the business model, quality of management, the markets they operate in, valuation and, of growing importance, their ESG record and aspirations for the future. In the current environment, it is not surprising that those companies with superior business models delivering strong growth have incorporated ESG matters to create value for customers and shareholders alike. Two good examples of larger holdings that have performed well while trying to make a positive difference to the world are Spirax-Sarco Engineering and Experian.

Spirax-Sarco is a company that probably not many people outside financial markets have heard of, but it is one the UK's leading industrial businesses. Its prime business is its steam management operation, which allows steam generated in the manufacturing process (for example in brewing or food manufacturing) to be recycled for other uses. This makes industrial plants more effective while also reducing their carbon emissions. Spirax-Sarco has built on the success of its business model with the recent launch of its sustainability programme, 'One Planet', which gives a clear guide of the benefits that can accrue to shareholders and customers. Talk can sometimes be cheap, but Spirax-Sarco calculates that 16 million tonnes of CO_2 was saved in 2020 by customers using their products.

Experian is a global leader in consumer and business credit reporting, providing financial data and analysis for consumers and businesses to help them make better lending decisions. Its services improve access to affordable, regulated, and safe financial services, particularly among underbanked communities in both developed and emerging markets. In Brazil, millions of people lack formal financial services, while in the US, 45 million people have no credit profiles. Access to credit is one of the best ways to alleviate poverty and provide the opportunity to improve living standards. We first invested in Experian more than five years ago, and during this period the business has demonstrated strong growth, despite the group's significant size (it has a market capitalisation of £32 billion), which usually make growth more challenging. Recent trading continues to show a high and growing demand for credit data, and proves that investing in a good business that benefits from a positive sustainable trend can be both lucrative for investors and beneficial for society.

Joe Walters,
Senior Fund Manager

UK equity income

The RLAM Income funds tend to have greater exposure to longer-established companies, whose businesses are relatively mature and generate strong cashflows, as these characteristics enable them to pay attractive dividends. The oil & mining sector is a good source of such companies and we have been in significant dialogue with BP, Royal Dutch Shell, Rio Tinto and Anglo American to discuss and challenge their strategies for addressing the world's growing demand for energy and materials, while simultaneously trying to mitigate negative impacts that producing or consuming the products causes, including climate change. The work we have done informs our assessment of how these businesses should best allocate capital and made us more confident that those companies can continue to support their high dividend payments while they undergo this important climate transition.

We consider our approach of remaining invested while having active engagement as being more constructive than simply selling out of the shares and leaving the complicated issues to others.

DMGT[9] and Croda are examples of deep engagements with our investee companies that have resulted in strong relationships over the years. The multinational media company DMGT has a non-standard corporate governance structure and we have met regularly with the company to discuss how best to make sure that the interests of management and the shareholders are properly aligned. This has been particularly important recently as the controlling shareholder of DMGT has made a takeover offer to take the business private. We engaged with the non-executive directors at DMGT to fully understand the complex issues around this, work which made us comfortable in accepting the takeover offer.

We have supported Croda's development as it used its chemistry specialisations to shift away from industrial and personal care markets and more towards life sciences. The most recent example of the success for that strategy was a pivotal role in providing ingredients for the Pfizer Covid-19 vaccine – which was a business win for Croda, but also a vital benefit to the world.

Richard Marwood,
Head of Income

Equity tilt funds

In August 2021, RLAM transitioned its passive equity funds from index trackers to ESG and climate 'tilted' funds. The original objective of our passive funds was to simply track an index provided by a third party. We used an optimiser to help construct the portfolio, but the factors we used were mostly based on the market capitalisation of the companies in the index as we tried to replicate the capital return of the benchmark.

Our updated investment process continues to deliver a risk and return profile similar to the index, but it now incorporates ESG and climate-related investment criteria, and introduced the ability to 'tilt' the funds towards or against these factors. The funds' new objectives are to reduce carbon intensity and improve their ESG and responsible investment profile, in addition to providing low risk returns relative to the benchmark. The changes were applied to the following funds:

- Royal London UK Core Equity Tilt fund
- Royal London Europe ex UK Equity Tilt fund
- Royal London Asia Pacific ex Japan Equity Tilt fund
- Royal London Japan Equity Tilt fund
- Royal London US Equity Tilt fund

Why was this done?

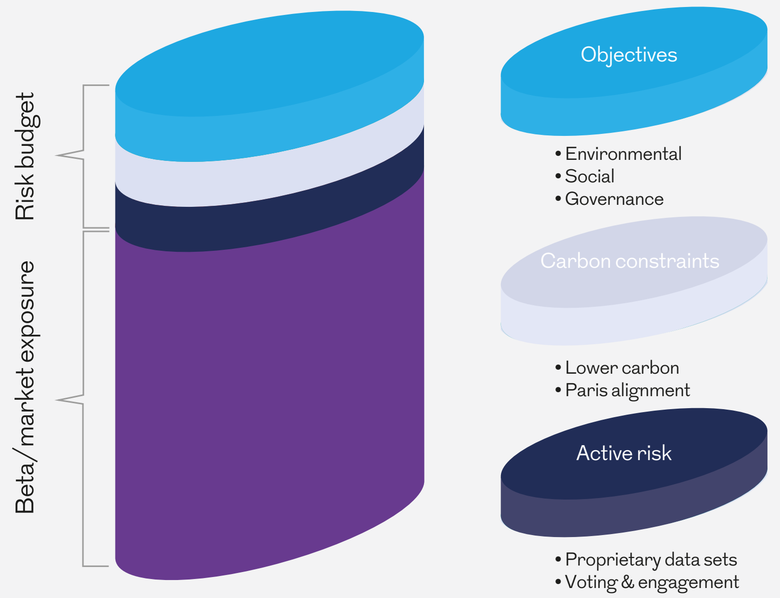
Equity inflows are still heavily biased towards passive investments, but asset owners today expect core equity allocations to do more than just track the benchmark. In addition, there is a growing recognition that index tracking funds are unable to meet the increasingly high demand from investors for ESG integration and carbon mitigation. Passive funds have limited engagement abilities or input to the stewardship of index constituents. In other words, passive fund managers cannot simply 'vote with their feet' and sell or reduce exposure. Investors have demonstrated a growing interest in owning core market exposure in a format that aligns with their values. We know there is still demand for investment vehicles anchored to core equity markets, so we have adjusted our process so that investment performance does not significantly deviate from traditional market-cap weighted benchmarks, but are better aligned with good ESG performance and lower carbon intensity.

We therefore created an 'entry level' core set of passive investments with three key objectives:

1. to construct a low-cost, high-capacity range of funds suitable for large client allocations;
2. to deliver core regional equity exposure with ESG tilts and responsible stewardship to meet the carbon intensity and corporate governance objectives of a large investor base; and
3. to offer a comparable risk and return profile to other passive allocation vehicles.

At the same time, we recognised the advantages of constructing a set of funds able to leverage the qualitative insights from our in-house RI team, so the funds could incorporate more sophisticated and proprietary views on issues such as climate transition and business involvement and human rights, while also applying internal data relating to, for example, our own voting history and engagement activity.

Figure 18: Uses of risk budget in RLAM Equity Tilt funds



ESG and climate-related investment criteria

Environment

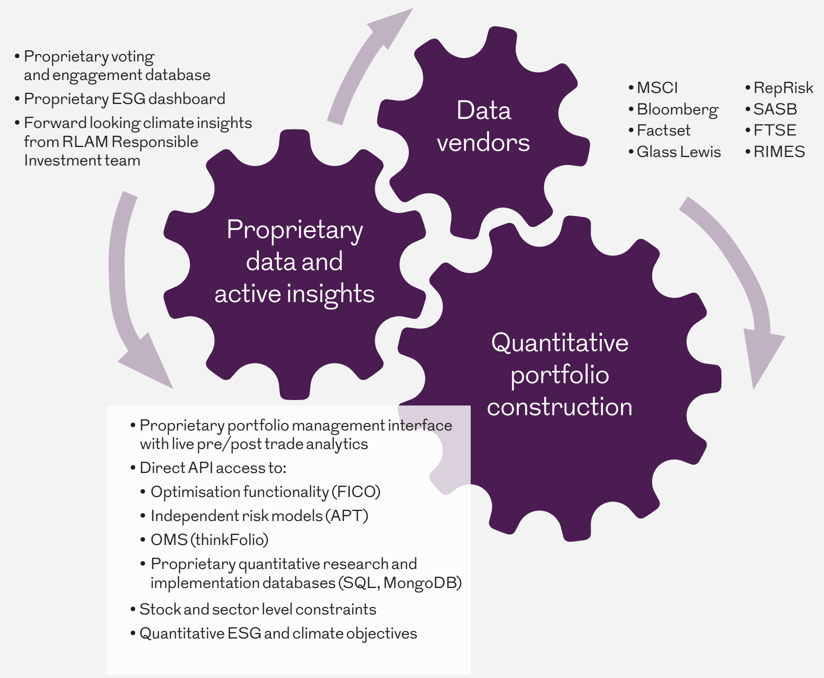
The overriding objective from the 'environmental' part of the ESG point of view is to achieve an improvement in the carbon intensity of the fund relative to the reference benchmark. This is achieved by measuring 'weighted average carbon intensity' (WACI). At the stock level, the stock's carbon intensity is measured by the total sum of its Scope 1 and 2 carbon emissions, per each million dollars of revenue earned.

The funds target a 30% reduction in carbon intensity relative to the reference benchmark for global funds, and approximately 10% for the UK funds, conditional on remaining within the permitted tracking error. Where company data is not reported, we use estimated carbon emissions data based on third-party data sources, alongside our own internal analysis.

The RLAM Equity Tilt funds will also consider a company's ability and willingness to transition to a lower carbon economy by:

- Aiming to reduce overall fund exposure, relative to the reference benchmark, to companies that:
  - Generate more than 10% of revenue from thermal coal.
  - Generate more than 10% of revenue from oil/tar sands.
- Leveraging insights from the investment manager, the RI team, and proprietary insights to consider actions by the company in making meaningful reductions in their emissions to align with a low carbon future. This aligns with our policy of engagement over exclusion.

Figure 19: Quantitative implementation of RLAM Equity 'tilts'



Social

Companies need to manage their businesses in a way that upholds basic human rights and meets the expectations of wider society. The funds aim to have lower exposure to companies that have a significant impact on their stakeholders by reducing the overall fund exposure to the following:

- Companies violating international human rights standards, such as the ten principles in the UN Global Compact.
- Companies generating more than 10% of revenue from tobacco-related business activities.
- Companies generating more than 10% of revenue from nuclear weapons.
- Companies in significant social controversies (using news and sentiment data).

Governance

A focus on strong governance helps ensure company management is subjected to appropriate levels of scrutiny and challenge. The funds aim to have lower exposure to companies with poor governance practices by taking into account:

- Our own proprietary research and engagement data on executive pay and remuneration-related resolutions.
- Broader datasets on voting results from historical resolutions related to executive pay and remuneration where we do not have internal coverage.
- Reducing overall fund exposure to companies with significant remuneration controversies.

Russian exposure

As at the end of February 2021, RLAM held no exposure in Russian companies in our active funds such as Global Equities, Sterling Credit, and sustainable funds. We had very limited exposure in our Equity Tilt funds, having reduced Russian exposure on ESG concerns when we converted these to tilt funds in mid 2021, and then again at the start of 2022. We have subsequently sold every holding we were permitted to.

We also had a small exposure in our Emerging Market tracker fund where Russia has traditionally been part of the MSCI index, before removing this in line with the index changes in early March.

Portfolio construction and overlay management in practice

As well as taking into account the ESG criteria outlined, the funds also apply constraints at the stock and sector level. We try to maintain stock and sector weights within a reasonable range of the benchmark weights. This is to ensure we don't introduce sector or stock bias. While we retain the right to exclude stocks, in most cases we would not look to exclude a stock completely, as this would be an inefficient use of our risk budget. Instead, it is sometimes more effective from a risk perspective to hold those stocks below their benchmark weight. As the fund names suggest, we 'tilt' our funds away from those stocks and themes that don't meet ESG best practice.

We operate 8-10 different overlays based on business involvement and different internal policies within RLAM. These allow us to run an optimisation on any given day to achieve the required ESG objectives via constraints. These constraints set limits to what we can hold in a given name. To implement these overlays, we use a proprietary portfolio management interface system that links our portfolio optimisation engines to our risk modelling framework and our order management system. We incorporate as much internal modelling into this process as we can. Therefore, instead of just incorporating data from external research providers on a company's carbon intensity and business involvement, we also use in-house databases that hold historical information on our own engagement and voting record on key issues like remuneration.

Future-proofed process

The RLAM Equity Tilt funds were designed to specifically move beyond the 'out of the box' passive solutions available elsewhere. We have built a product set that enables us to be dynamic when it comes to ESG rather than follow a third-party index that we, as an investor, have no control over. We believe that a blend of external and in-house forward-looking data will continue to give our funds a significant competitive advantage over other passive investments that track 'off the shelf', third-party low carbon indices.

With investors demanding greater integration of ESG factors into their portfolios, and with constantly improving ESG data sets and better corporate disclosure, we expect the RLAM Equity Tilt funds to provide a compelling alternative to passive investing by investing both smarter and more responsibly.

Matt Burgess
Head of Quantitative and Passive Equities

"There is a growing recognition that index-tracking funds are unable to meet the increasingly high demand from investors for ESG integration and carbon mitigation."

Azhar Hussain
Head of Global Credit

> “Governance issues often pose the greatest short-term financial risk to companies in high yield markets.”

Fixed income funds

Global credit

The Global Credit team believes that the consideration of ESG risks will provide better long-term sustainable cashflows from the companies in which we invest. Governance forms a key part of our fundamental credit analysis. The following core principles guide the incorporation of ESG factors into our Global Credit and High Yield investment strategies.

Engagement, not avoidance

We prefer to engage with, rather than avoid, companies with poorer ESG practices. We prefer not to rely on exclusions because they tend to avoid weaker ESG-ranked companies, often with no consideration of the financial trade-off or the ability or willingness of a company to change and make improvements. Collaboration with the RI team and credit analysts enhances information discovery and analysis, and supplements third-party data where quality and coverage of data is often lacking, particularly in high yield and emerging markets.

Natural turnover

Improving the overall characteristics of a credit fund can be done in two ways. As with an equity fund, we can sell bonds with, for example, a high carbon footprint and/or reinvest in a lower carbon bond. But in addition, we will have a proportion of the bonds we hold maturing in any given year, and can reallocate capital to lower carbon investments. This gives us flexibility to take advantage of primary market issuance and secondary market liquidity to benefit our investors.

Rigorous financial impact assessment

ESG analysis provides us with an added perspective on top of traditional credit analysis. We recognise that governance issues often pose the greatest short-term financial risk to companies in high yield markets, while environmental and social issues can have longer term impacts. Our rigorous credit research process leads to an overall internal rating score which incorporates nine fundamental factors (such as free cash flow, growth prospects, etc). As one of the nine factors, ESG issues can move the rating in our internal model up or down one notch. We work closely with the RI team to investigate and understand any significant ESG risks, but the final investment decision rests with the fund manager and takes into account relative valuation.

CASE STUDY

Chemours

Chemours is a leading producer of titanium dioxide (TiO_2) pigments with a leading market position and the lowest cost production in what is a consolidated industry. Chemours has strong free cash flow generation and can preserve liquidity at bottom of cycle industry conditions. Despite RLAM's positive view on the underlying business, the emergence of headline risks with the potential for unknown financial liabilities led us to exit the investment. RLAM had concerns around the financial implications from environmental remediation and personal injury lawsuits as a result of PFAS chemicals, otherwise referred to as 'forever chemical'.

Chemours lost its lawsuit against former parent, DuPont, in which it was seeking \$3.9 billion in damages at the same time as the first of 60 personal injury lawsuits was settled in an Ohio court for \$50 million. Chemours then signed an agreement (along with DuPont and Corteva) limiting the company's exposure to 50% of the first \$4 billion in liabilities. This was higher than expected but provides some certainty. Liabilities are not totally limited at this stage, as Chemours remains liable for amounts above \$4 billion. However, it also settled the majority of the remaining personal injury lawsuits for \$83 million, which was less than expected.

CASE STUDY

Ardagh

Founded in Ireland but headquartered in Luxembourg, Ardagh produces glass and metal containers primarily used for food and beverage packaging. Ardagh continues to earn nearly half of its revenues from glass production which – despite being recyclable – remains a highly carbon-intensive process. Ardagh's waste practices fall below the standards of industry leader Ball Corporation. Despite some industry initiatives to reduce the weighting of glass bottles, in which Ardagh is playing an active role, the company's carbon footprint is little changed over the last ten years.

Working alongside our RI team, we identified a number of ESG-linked concerns for this company in October 2020, including ownership/control/governance and environmental impact compared with its direct peers. Our analyst initially took these to Ardagh's investor relations representative and followed this up with emails and conference calls with investor relations, the CFO and CEO/Chairman/majority shareholder.

Our engagement has allowed us to better understand the ESG risks associated with the company. We have grown comfortable that certain issues have been addressed and others are clearly in the works, albeit the unique ownership situation will not be resolved, hence our negative ESG score (-1) remains in place. However, the positive trend and ongoing dialogue encourages us to remain invested in the company via its higher spread instruments, which we feel adequately compensate for the credit risk.

CASE STUDY

Petrofac

We conducted a 'deep dive' financial analysis on Petrofac, the UK-listed oil & gas services business, during its November 2021 bond roadshow, meeting with the CEO and CFO. Petrofac had just been fined approximately $100 million by the Serious Fraud Office after being found guilty of 14 counts of bribery to win oil services contracts in the Middle East.

Although Petrofac stated a new management team – including a new CEO and CFO – was in place, the CFO had been in the company's treasury and risk department for the last ten years, during the time of the improprieties. Petrofac's board also featured several members who were with the company during this time, including ex-CEO Ayman Asfari (2002-2020) who is also the largest shareholder (20%). As well as being the CEO when the illegal activities were being investigated, Asfari has also separately been fined in Italy for insider trading. Petrofac was also mentioned during separate Department of Justice investigations into other companies. Our research confirmed these red flags and still-present links to the period when the improprieties took place. We passed on the new bond issue and do not own the bond.

CASE STUDY

Wessex Water

Wessex Water is a water supply and sewerage company operating in Southwest England. The available carbon intensity data provided by our data provider is calculated based on Wessex Water's parent company, YTL Corporation, which owns and runs several coal-fired power stations as well as cement manufacturing plants. As a result, the publicly available carbon intensity data on Wessex Water (which is a separate, ring-fenced company) is 50 times bigger than the carbon intensity of Wessex Water itself. Blindly following ESG data in this case can lead to very poor investment decisions.

As credit investors, we can lend to the same company in many different ways, such as lending to a ring-fenced part of the company or its subsidiaries, or through lending with security over specific assets. This idiosyncrasy is one of the most exciting attributes of

corporate bonds for active investors. From our perspective, in order to make appropriate investment decisions as credit investors, it is critical to have expertise in integrating all environmental risks, including specific carbon footprints at the specific entity level we are lending to (such as with Wessex Water), without including misleading data from the rest of the parent group.

Sterling credit: uncovering ESG insights

Our approach to ESG in credit has always been built on the belief that credit markets do not accurately price idiosyncratic risk. We use ESG analysis in the same way as any other form of credit research – to uncover information that credit rating agencies and other market participants might be missing, helping us to make better investment decisions for our clients and deliver excess returns.

ESG integration, and the impact of decarbonisation within credit markets, is less well-established than within equity markets. As a result, perceived best practice is continually evolving. But in our view, there is no asset class to which sustainability of cashflow is more important than credit. As carbon reduction objectives become the norm in future, proprietary data around carbon intensity is a significant contributing factor in helping to minimise the risk of stranded assets, as well as reducing the emission levels of the funds in an effective manner.

Accessing an in-house RI team that understands the idiosyncrasies of credit as an asset class, and is capable of conducting rigorous and meaningful bottom-up credit and ESG analysis, is a core part of our investment process. Having better data on issues such as carbon intensity means we can see where poor performance is and helps us make more informed investment decisions.

While we use information from credit ratings agencies and third-party vendors as part of our credit analysis, we recognise that the information presented can be limited in scope, and contain inaccuracies that can be misleading and lead to flawed decision-making.

Information from credit ratings agencies

For example, information from credit ratings agencies is useful in providing a 'snapshot' assessment of risk at a given point in time. Ratings agencies will typically base assessments on the probability of an issuer's default, rather than loss, which is just one half of the equation. Agencies also tend to focus projections over relatively short timeframes. We would argue that many of the ESG-specific risks companies face are more long-term in nature, for example, the likelihood that issuers will one day face the prospect of owning 'stranded assets' as a result of decarbonisation. Ratings are not calibrated to allow for this nuance, as long-dated bonds from the same issuer will have the same rating as their shorter-dated bonds.

Therefore, a 'point in time' rating is less helpful when considering the longer-term assessment required. Instead of relying on an opinion at a specific point in time, active managers need to assess an issuer's progress. The only credible solution is thorough, bottom-up fundamental research and an investment process that acknowledges the false distinction between traditional credit and ESG analysis.

Data supplied by third-party vendors

Environmental factors – most notably carbon emissions data – is one such area where there is limited third-party research. While equity-related data from third parties is often used to judge ESG credentials such as carbon intensity, in our view, this practice is sub-optimal, as the information supplied often fails to capture the nuance and specificity of the credit market, and risks leading to good ESG bonds being ignored.

Monitoring carbon emission intensity

We use third parties to obtain carbon data, but recognising the limitations of such data, we add our own proprietary emissions data to ensure better coverage and to achieve a higher standard of emissions data than available in the market. This internal research has increased the coverage of a typical sterling credit fund from around 60% to 90% – reflecting better mapping, improved coverage and quality/relevance. Our RI team will provide an assessment of the quality and credibility of an issuer's ESG impact, including carbon intensity, to understand where the risks and opportunities may lie within a business model prior to investment, and follow this up as information changes. Although carbon is not the deciding factor when assessing an issuer's ESG impact, we measure changes in carbon emissions intensity because we want to accurately price that risk, alongside other key risk factors.

Engaging with rolling stock owners

In 2021, we wanted to understand the investment case for rolling stock owners (ROSCOs) within the transport sector, as well as calculating the potential impact of decarbonisation targets on the sector as a whole. Although rail is considered as a lower carbon alternative compared to motor vehicles, the transport sector is a significant contributor to the UK's carbon footprint. In 2020, transport accounted for almost 30% of total carbon dioxide emissions.

However, recognising that third-party research on the ROSCO sector was limited, with no research published, we saw this as an opportunity to conduct our own bottom-up analysis and engagement. Through targeted ESG analysis, we were able to evaluate the potential impact of decarbonisation on the UK rail network, and the impact this could have on three privately-owned ROSCOs that RLAM has exposure to: Porterbrook, Angel Trains and Eversholt. We contacted each company to determine their preparedness, to re-examine the lending case, and also consider the longer-term outlook for the sector.

Integrating this bespoke carbon intensity analysis into our credit analysis provided us with the platform to make more informed investment decisions about companies within this sector. The project also created a valuable framework for future direct engagement with credit issuers. You can read about this in more detail here.

Matt Franklin
Fund Manager

"We would argue that many of the ESG-specific risks companies face are more long-term in nature."

Government bonds and cash

Government bonds

Although effective integration of ESG factors in the government bond market is still in its infancy relative to other bond markets, we continue to use our position to engage with issuers. For example, we have regular contact with senior figures at the Debt Management Office (DMO) for the UK government. We also hold occasional one-to-one meetings with representatives from other DMO entities for countries including Australia, New Zealand, Canada and Sweden, to share our thoughts and raise potential issues relating to these markets. It has been notable over the past year that central banks are interested in issuing green bonds and are gauging investor appetite.

In the past year, we have been discussing how climate risk can be measured as part of our regular government bond meetings. On a country basis, we consider the percentage of fossil fuel exports, energy consumption per capita and environmental vulnerability index, among other factors. These meetings have been essential in considering RLAM's exposure and making use of the climate metrics now available. We expect the frequency of these discussions will increase as we apply the data more in the construction of global bond portfolios.

Liquidity

We increasingly consider ESG factors in our liquidity solutions, particularly when evaluating our exposure to financial counterparties. Applying high standards of corporate governance to the counterparty banks that we transact with is in the best interests of our clients. We know client money is safer when deposited with banks that have strong governance and high standards overall. This is a factor we consider when choosing how to invest client's assets, and we monitor companies to ensure high standards are being maintained. In cases where ethics and standards of financial counterparties come under question, we look to engage directly with them before considering our position (see NatWest case study opposite).

More broadly, our approach to ESG integration in managing our suite of liquidity and short term fixed income solutions considers research, and engagement on ESG factors to reduce risk, enhance returns and improve industry standards – although given the much shorter maturity profile and investment horizon in this area, we recognise that an engagement-led approach is not suitable. However, exclusion is a more viable tool, and one backed by significant client demand to exclude certain sectors from our investment universe. We therefore apply a number of exclusions as standard across the entire fund range, eliminating companies that generate more than 10% of revenues from tobacco, armaments and fossil fuel extraction.

Research

We continue to look for ways to embed ESG factors into the management of our funds, because we believe ESG factors are crucial to the security risk profile of our investments. Therefore, we combine our negative exclusion criteria with ESG research and scoring. Research from our RI team is factored in with that of external providers to determine an ESG score for each security.

We pay particular attention to the macro-geographic bias of a given security. Where we are presented with an equally viable alternative security, our ESG considerations can often prove the distinguishing factor over another investment. For example, assessing Canadian and Middle Eastern banks, a number of these offered similar credit ratings and MSCI ESG ratings. However, we also look at ESG at a geographic level, as well as corporate. We believe that the ESG risk for a bank operating in Canada will be lower, given the spread of industries that can be lent to. Therefore, if looking at paper from two such banks at a similar yield, we would buy the Canadian paper due to our assessment of lower overall risk.

Engagement

Our money market and credit specialists and in-house team of RI analysts conduct regular engagement with issuers to ensure information is timely, based on the short-term emphasis of our investments, with our interaction with NatWest last year an excellent example of this.

Craig Inches
Head of Rates and Cash

> "ESG considerations can often prove the distinguishing factor over another investment."

CASE STUDY

UK Green Gilts

As we outlined in last year's Stewardship Report, the UK government's announcement that it planned to issue the UK's first sovereign green bond in 2021 led us to write to the Chancellor of the Exchequer, both to offer our support of the announcement and to provide our insights on the green bond sector. We subsequently received a response inviting us to attend a meeting with the DMO and Her Majesty's Treasury to discuss our views in more detail. This meeting took place in January 2021. It was attended by Piers Hillier, RLAM's Chief Investment Officer, as well as representatives from our RI Team and the Cash Fund Management team.

The meeting covered in detail several green bond-related topics and the government representatives were very open to our ideas. We were particularly keen to emphasise the UK's opportunity to be a leader in the green bond market, and offered suggestions on how the government could go about this – for example, by leading a global effort to standardise green bond labels and issuing enough green bonds to ensure the creation of green bond benchmarks and help meet the needs of investors with different maturity requirements.

The UK issued its first Green Gilt (a 12-year bond maturing in 2033 and raising £10 billion) in September 2021, and a further £6 billion was raised in October 2021, with a maturity date of 2053. As set out in the government's Green Financing Framework, the £16 billion raised by the Green Gilts will be used to finance expenditures in clean transportation, energy efficiency, renewable energy, pollution prevention and control, living and natural resources, and climate change adaption. However, our view is that a best-in-class structure would ring-fence the assets and ensure that coupons were paid using cashflows from those assets. At present, the Green Gilt structure falls short of this standard. We will continue in our engagement efforts, to help ensure green bonds issued by the UK government are robust, contribute to supporting a climate transition in the UK, and merit consideration for inclusion in our funds.

CASE STUDY

NatWest Group

In the first quarter of 2021, it came to light that the FCA had started criminal proceedings against NatWest Group plc for alleged non-compliance with Anti-Money Laundering legislation. As a result of this news, we immediately contacted NatWest to schedule a call with representatives from its investment relations team. While we were pleased NatWest was open to communications, the information available to us was limited given the pending legal action. The company believed the incident was a minor setback in an otherwise positive cultural progression of the company since the global financial crisis.

While we awaited further information and insights, RLAM's Cash team chose not to renew their position in short-dated NatWest credit after the bonds reached maturity.

In October 2021, NatWest entered guilty pleas to criminal charges brought by the FCA under the Money Laundering Regulations 2007. In December 2021, the bank was fined £264.8 million. The FCA said it would not take action against any current or former NatWest employees, and NatWest said it was not anticipating any other authority investigating this conduct.

We are now considering including NatWest in our portfolios once more, as part of our regular review of credit counterparties. Although restorative action was largely in place when the criminal proceedings were made public, the potential for fines and other punishment meant we felt this was unsuitable for an investment such as liquidity and short-term fixed income.

Tim Coffin
Responsible Property Investment Manager

Property

In acknowledging the transformational role that property can play in addressing the climate emergency, RLAM's Property team has launched two new strategy papers: '[Property net zero carbon pathway]' and '[Responsible property investment strategy]'.

Property net zero carbon pathway

We have committed to achieving net zero carbon emissions by 2030 for our directly managed property assets and developments, and by 2040 for our indirectly managed property assets. Our pathway to achieving these goals has been determined by reviewing our carbon footprint baseline and the GHG emissions trajectory of our property portfolio. This pathway also aligns with the Better Buildings Partnership Climate Commitment, as well as global initiatives including the Paris Agreement and the Net Zero Asset Managers Initiative.

Our pathway includes all significant elements of the whole life carbon approach, covering both embodied and operational carbon. We have developed strategies to reduce embodied carbon and increase the operational efficiency of our buildings to directly minimise our carbon footprint. Due to the indirect management of many of our assets, occupier engagement will be critical to find solutions to achieve our goals.

Increasing the supply of renewable energy across our portfolio is a priority. This will be achieved through on-site renewable energy, for example solar photovoltaics (PV), as well as exploring options for off-site high quality renewable energy, such as power purchase agreements (PPAs). Carbon offsetting also forms a key part of our pathway for residual emissions that we are not able to abate by other means. We will ensure any offsetting aligns with the Oxford Offsetting Principles, as well as industry guidance, including from the UK Green Building Council.

You can read the full report here.

Responsible property investment strategy

Our new responsible property investment strategy will ensure we continue integrating material ESG factors into investment decisions across all our real estate assets. It sets out new, more ambitious environmental and social performance goals and risk mitigation tactics. With property truly a long-term investment, and our focus on maximising value, responsible property investment is integral to our mindset.

Our responsible property investment framework has four focus areas, along with a set of high-level key performance indicators (KPIs) used to track quantitative performance against each area. Ten material ESG issues form the foundation of our strategic framework, illustrated in Figure 20. Responsible property investment objectives are also linked to a roadmap outlining the actions required to achieve our goals.

You can read the full document here.

Property management

Covid-19 has continued to present challenges across our portfolio. Following the easing of restrictions at various times in 2021 in the UK, where all of our properties are located, ensuring our assets could be re-occupied safely and in line with government guidelines was a priority, as well as providing property occupiers with reassurances and detailed guidance on how they could continue to occupy their buildings safely.

We tried to balance the need to reduce energy consumption to minimise our carbon footprint with the requirement to provide a flow of clean air into each building to improve air circulation. Other Covid-19 related safety measures implemented by our property managers included providing a visible presence of cleaning activities, putting up signs to explain health and safety guidance, and installing hand sanitiser stations in common areas. Our property managers[10] continue to engage with occupiers to ensure they are satisfied with the services provided. Measures include an annual satisfaction survey, of which we closely monitor the results, to ensure we are meeting occupier needs and addressing any concerns.

Benchmarks, reporting and achievements

The **Global Real Estate Sustainability Benchmark** is recognised as a key measure of sustainability performance. Assessments are based on seven sustainability aspects, including information on performance indicators, such as energy, GHG emissions, water and waste.

Our three funds achieved one 4-star rating and two 3-star ratings, all placing in the top quartile of a peer group of 79 funds. Two funds entered into the Development section achieved a 4-star and 5-star rating, with both improving their overall scores.

Streamlined Energy & Carbon Reporting is a mandatory Government scheme that replaced the Carbon Reduction Commitment. It requires funds to disclose intensity metrics such as energy use, carbon emissions and energy efficiency actions.

We will again be reporting in line with the TCFD in 2022, ahead of our requirement to report from a regulatory perspective by 2023. We will be exploring the use of scenario analysis to determine potential physical risks (such as future warming and flooding) and transitional risks (such as new government regulations) that our property portfolio may face under different future conditions.

Figure 20: RLAM's responsible property investment framework

Investing in a resilient portfolio

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

Developing for the future

Creating thriving buildings and places through sustainable development and refurbishment which have enduring appeal for occupiers and add value to local communities

Managing assets for positive impact

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

Responsible decision making

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

Our material issues

- Transition to net zero carbon
- Climate resilience, adaptation and risk mitigation
- Safeguarding natural resources
- Biodiversity & green infrastructure
- Progress to circular economy
- Purposeful construction & placemaking
- Sustainable transport & connectivity
- Health, safety & wellbeing
- Diversity & inclusivity
- Building & certification

The Real Estate Environmental Benchmark is an operational benchmark of environmental performance for commercial property. Along with our peers, we submit annual consumption data of our property portfolio that compares the environmental performance of our buildings against one another, as well as against our peers. In 2021, we submitted data for 37 of our properties, an increase of 22 properties from 2020.

In 2021, we received Ten Green Apple Awards for biodiversity initiatives including the installation of bat and bird boxes and bug hotels, as well as tree planting. We were also recognised for implementing strategies to reduce waste generation and resource consumption, such as disposable glove recycling, sachet-based cleaning methods to eliminate single-use plastics, and increasing the number of recyclable waste streams.

Members of the Property team also completed an ESG training programme hosted by the Better Buildings Partnership. This aims to develop their understanding of ESG principles, disciplines and tools required to ensure full integration across the property asset management process. We continue to be active members of organisations including the Better Buildings Partnership, UK Green Building Council, the British Property Federation and the Investment Property Forum Sustainability Interest Group.

Development

Approximately 50 construction projects are currently underway. Most of these are for commercial use, including both new-build and refurbishment. This includes offices, retail, industrial and residential developments of various size and complexity across the UK. All are at different stages of the development process, from inception to nearing completion.

In 2021, we updated our Development Sustainability Targets, which are now known as 'New Construction & Major Refurbishment Sustainability Standards'. These feature eight sustainability categories: Energy & GHG Emissions; Materials & Supply Chain; Waste; Water; Climate Resilience & Adaptation; Biodiversity & Habitat; Health, Safety & Wellbeing; and Social Value. The categories include 58 targets, six more than previously, which have been mapped against the relevant UN SDGs. These targets include:

- All new and major refurbishment projects to achieve a Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' rating and develop a pathway to achieving BREEAM 'Outstanding' for review by Project Director or strategic sustainability consultant.
- A minimum Energy Performance Certificate (EPC) 'A' rating to be targeted for all new-build development projects, and a 'B' targeted for all refurbishment projects.
- All new-build and major refurbishment office developments to undertake UK NABERS Design for Performance Certification.
- For all new-build and major refurbishment projects, an operational energy net zero carbon feasibility assessment is to be provided prior to planning which clearly sets out how the scheme can be readily adapted in the future to achieve net zero carbon.
- 95% of non-hazardous demolition, strip-out, excavation, construction and fit-out waste by weight to be diverted from landfill and recycled or recovered for purposes other than energy generation.
- No new residential developments to be built on flood zones with a high possibility of flooding.
- All new and major refurbishments to maximise biodiversity net gains on site or nearby.
- Contractors to support at least one community engagement activity annually, with team members giving time to a project that benefits and supports the local community.

New Construction & Major Refurbishment Sustainability Standards

These feature eight sustainability categories:

- Energy & GHG Emissions
- Materials & Supply Chain
- Waste
- Water
- Climate Resilience & Adaptation
- Biodiversity & Habitat
- Health, Safety & Wellbeing
- Social Value

The following pipeline development projects provide examples of our sustainability aspirations:

Statesman House, Maidenhead

Detailed planning consent has been submitted for a 110,000 sq ft new-build office, forming part of a wider site masterplan that includes a further 186 residential units and a separate 70,000 sq ft office. The initial phase commencing in 2022 will deliver the larger office building, and will be targeting ambitious sustainable criteria, including BREEAM 'Outstanding', WELL Building Gold Standard, EPC 'A', and Net Zero Operational Carbon. The development is also part of the Design for Performance Pioneer Programme targeting reduced operational energy levels, which will assist in achieving RLAM's wider net zero carbon pathway, and reduce running costs for our occupiers.

The Earnshaw, London

The Earnshaw (previously known as Castlewood House) is a new-build mixed-use central London office development, comprising 139,000 sq ft of office space and 27,000 sq ft of retail space. The development is targeting best-in-class credentials including all-electric building systems that removing the need for gas-powered plant and equipment. The building will also target the WELL Building Gold Standard, EPC 'A' and BREEAM 'Outstanding', as well as incorporate on-site Solar PV for renewable electrical energy production.

The building design responds to the requirements of occupiers in relation to Covid-19 such as:

- Individual toilet cubicles.
- Installation of Wired Score and Smart Score technologies that help users to access the building more efficiently.
- Improved fresh air ventilation rates over and above current industry benchmarks.


The Earnshaw, London

Holborn Viaduct, London

Detailed planning consent has been granted for a new, high quality, flexible and sustainable 250,000 sq ft office development. Our aim is to create a workspace that is adaptable in the post-pandemic world, thereby future-proofing the optimisation of the asset. The building will be targeting best-in-class sustainability credentials, including BREEAM 'Outstanding' and WELL Building Platinum Standard, and will be a Net Zero Operational Carbon development. Solar PV will be provided onsite, as well as heat pumps, minimising emissions. Holborn Viaduct will also focus on enhancing connectivity by offering extensive public improvements. This includes new accessible lifts providing step-free access between Holborn Viaduct and Farringdon Street, and hard and soft landscaping works along both frontages of the property.

Trevor Greetham
Head of Multi Asset

> “We apply a systematic framework for allocating to different asset classes and regions.”

Multi asset and private equity

Multi asset

Our multi asset funds serve a broad range of clients and are the backbone of Royal London Group’s pension proposition. The Multi Asset team has a distinctive Strategic Asset Allocation (SAA) process with strong governance at the heart of it. Also, many of our clients choose to invest with us to take advantage of our active Tactical Asset Allocation (TAA) investment process, which makes capital allocation decisions based on various economic and financial factors. We apply a systematic framework for allocating to different asset classes and regions, with investment decisions informed by a range of proprietary quantitative models such as our ‘Investment Clock’.

Asset allocation, rather than stock selection, is the main driver of our multi asset proposition. Therefore, ESG integration is achieved through investing in a variety of RLAM funds. RLAM’s active fixed income funds have ESG integrated in their investment process and are reviewed regularly by RLAM’s Responsible Investment and Credit teams. The equity portion of our multi asset funds is predominantly invested in RLAM’s new ‘tilted’ funds for cost efficiency and diversification reasons. These funds are tilted with the aim of achieving a significantly reduced carbon footprint when compared against traditional index-tracking vehicles (see ‘Equity tilt funds’ on page 51 for more detail). Our emerging markets exposure is provided via an ESG-screened index to mitigate risks associated with parts of the world where corporate governance issues can impact corporate performance and investment returns.

Property is also a key and distinctive part of our multi asset offering. Our property portfolio has ESG considerations integrated into the process to ensure a building’s sustainability and carbon footprint is considered before its purchase. RLAM property funds aim to be net zero by 2040 – you can find more detail in the ‘Property’ section on page 60.

As described in this report, RLAM takes an active approach to voting and engagement, and clients that are invested with us through our multi asset propositions benefit from our efforts to improve outcomes for customers by reducing ESG risks and encouraging improved behaviour by companies.

Private equity

Totalling around 2% of our AUM, RLAM’s involvement in private equity is purely as a Limited Partner (LP). ESG issues often have both greater impact, and offer more opportunity for direct management, while under private ownership. Private equity holding periods are longer than average public equity holdings, and the level of ownership by the general partner as a majority shareholder is enough to give it special rights and influence. Formal ESG policies are increasingly an inherent part of our private equity managers’ operations, both at the management company and portfolio company level. We have reviewed our existing private equity relationships for any risk outliers.

ESG in derivatives

RLAM has started incorporating ESG factors into analysis when investing in derivatives such as futures contracts, as part of ‘best execution’ processes, and in the analysis of counterparty risk. As part of this, RLAM has taken action by moving positions away from particular counterparties when conducting regular rebalancing trading activity. In addition, ESG factors are incorporated as part of the best execution and counterparty processes as an additional consideration.

Notes

1 As defined by the EU's Sustainable Finance Disclosure Regulation (SFDR).

2 Investment Committee, Sustainability and Responsible Investment Committee, Stewardship Working Group, Climate Change Working Group and Net Zero Forum

3 https://www.climateaction100.org/news/climate-action-100-sets-decarbonisation-expectations-for-electric-utility-companies-to-achieve-net-zero-emissions-globally-by-2040/

4 EU Shareholder Rights Directive II https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017L0828

5 RLAM Responsible Investments - Voting Records http://www.rlam-voting.co.uk/voting/

6 Excluding our quantitative equity tilt funds.

7 Excluding our quantitative equity tilt funds.

8 The voting database includes RLAM's voting record from January 2015. It also includes the voting records of the Cooperative Asset Management (TCAM) for the period of January 2002 to December 2014. The voting record is only available for the funds where we vote.

9 Royal London Chairman Kevin Parry is a non-executive director at DMGT.

10 RLAM outsources its property management to JLL, which is responsible for all aspects of the day-to-day management of the portfolio, including tenants, rent collection, service charge accounts, and health and safety.

Glossary

Acronym	Explanation
AGM	Annual General Meeting
AI	Artificial Intelligence
AUM	Assets Under Management
BITC	Business In The Community
BREEAM	Building Research Establishment Environmental Assessment Method
CFA Institute	Chartered Financial Analyst Institute
CFRF	Climate Financial Risk Forum
CISO	Chief Information Security Officer
COP	Conference of the Parties
D&I	Diversity & Inclusion
DMO	Debt Management Office
DoS	Denial of Service
EPC	Energy Performance Certificate
ESG	Environmental, Social & Governance
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSB	Financial Stability Board
FTJA	Financing a Just Transition Alliance
GHG	Greenhouse Gas
iNED	Independent Non-Executive Director
KPI	Key Performance Indicators
LP	Limited Partner
LTIP	Long Term Incentive Plan
M&A	Merger and Acquisition
NED	Non-Executive Director
NGO	Non-governmental organisations
NIST	National Institute of Standards and Technology
PAI	Principal Adverse Impact
PV	Photovoltaics
PPA	Power purchase agreements
Ri	Responsible Investment
RLAM	Royal London Asset Management
RLMIS	Royal London Mutual Insurance Society
ROSCO	Rolling Stock Owning Companies
SFDR	Sustainable Finance Disclosure Regulation
SRD	Shareholder Rights Directive
TCFD	Task Force on Climate-related Financial Disclosures
UN PRI	United Nations Principles for Responsible Investment
UN SDGs	United Nations Sustainable Development Goals
SAA	Strategic Asset Allocation
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Target Initiative
TCAM	Cooperative Asset Management
TTA	Tactical Asset Allocation
TiO2	Titanium dioxide
WACI	Weighted Average Carbon Intensity

Further reading

Our environmental impact

We have a proud history of leading the way for positive change, and we continue to be committed to doing the right thing. For example, we're looking closely at how we can make our own offices, operations and supply chain more environmentally friendly and sustainable. Recognising that climate change is an issue that can impact all areas of our business, we've created a strategy that applies to our investment activities, operations, approach to risk management, and our commitments to our stakeholders.

RLAM, through our parent, Royal London Group, manages operational climate risk through shared services, infrastructure and the buildings we operate from. Jointly with the Group, we aim to operate our business in a responsible manner, seek efficiencies to reduce our environmental and climate impacts, limit waste, and support sustainable environmental practices.

We have made five public commitments to manage the impact of our operations and investment practices on the climate. These commitments apply across Royal London Group:

- Climate risk will form a key consideration within our risk management and business planning .
- We'll consider climate change risks and opportunities in our operations.
- We'll keep stakeholders informed of progress at least once a year, in line with TCFD recommendations.
- We will produce a Group-wide climate risk policy.
- We will use our position to promote the case for a low carbon economy.

You can read more about our approach to operational climate risks in the Royal London Group Climate Change Commitments Policy Paper. Details on our Scope 1, 2 and 3 emissions, including operational emissions and emissions associated with our investments, will be available in our TCFD Report, which will be available on our website in Spring 2022.

Diversity and inclusion

We understand the importance of having an inclusive workplace culture where everyone is valued and respected for the difference they bring and has the opportunity to perform at their best. We also know that having a diverse workforce that reflects our customer and communities is an essential element to delivering the best outcomes for our clients and customers – put simply, when looking for the best people to deliver for our clients, we want to spread the net as wide as possible.

Over the last few years we have made strong progress on our Diversity and Inclusion (D&I) commitments and they continue to be a strong focus for us. At the beginning of 2021, we confirmed D&I as our key People Commitment for the year, and set up a D&I Taskforce to ensure the voices of our colleagues would continue to shape this work. With the support of this Taskforce and our five colleague-led inclusion networks (and their Executive sponsors), we strengthened our D&I strategy and launched our three-year positive action plan to drive change.

Our five colleague-inclusive networks are an essential component of our approach to D&I, each with the aim of promoting various aspects of diversity and each sponsored by a member of our Executive Committee. We believe these networks are key enablers to support colleagues and help us attract more diverse candidates into Royal London and RLAM.

Women's Network: our internal Women's Network helps support career development for all staff, with the intention to facilitate everyone in Royal London to inspire women to aim higher, learn more and achieve more.

REACH Network: 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 Network: 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.

EARL: our network which is focused on enabling disability confidence at Royal London.

Women in Technology: our newest network focuses on support and encouraging women in technology-related roles.

Our three-year positive action plan is aligned to five key areas of focus:

- Building an inclusive culture.
- Ensuring more robust data capture and tracking.
- Striving for better gender balance, particularly women in senior roles.
- Increasing ethnic diversity across all grades, and particularly in senior roles.
- Continuing to support all wider underrepresented groups, including our LGBT+ colleagues and colleagues with disabilities.

Our positive action plan is progressing well and includes the following activities to date under each of our five pillars:

2021 highlights

- As part of National Inclusion week (27 September to 3 October) we carried out an 'intranet takeover' to prioritise and promote our D&I positive action plan, including sharing compelling colleague stories to inspire action.
- We implemented a new Human Capital Management System (HCMS) and launched a campaign to encourage our colleagues to record a number of items of personal demographic data, including their ethnicity, sexual orientation and disability status, on the system – this data will be held securely and in compliance with General Data Protection Regulation (GDPR). This data will help ensure the way we recruit, develop and retain our people is inclusive of individuals from all backgrounds.
- We refreshed our Her Majesty's Treasury (HMT) Women in Finance target for 2021 onwards to increase women in senior roles to 42% by 2025 across the Group. At 31 December 2021, the figure was 36%.
- We strengthened our talent attraction methods, including a 'deep dive' of the external market where benchmarking shows Royal London application data positively tracks ahead of market average for female applications across majority of business areas. Our recruitment partners are driving direct sourcing, diverse referrals and internal mobility to improve gender and ethnicity metrics.
- We continue to champion our Disability Confident commitments, ensuring adjustments are in place to support colleagues with disabilities and offering an interview to candidates with a disability who meet the minimum criteria. We set up a disability action group to support accelerating reasonable adjustment requests.
- We also support LGBT+ colleagues and confirmed our intention to submit an application to the Stonewall UK Workplace Equality Index in 2022 This is a benchmarking tool that allows employers to measure their progress on lesbian, gay, bi and trans inclusion in the workplace
- RLAM has taken three interns from the #100BlackInterns programme and three interns from the Her Capital programme, having started our involvement with these programmes in 2019 and having to move to online events in 2020 and 2021.
- We measure success by asking diversity and inclusion related questions in our regular employee engagement surveys together. We also closely track progress against our HMT Women in Finance gender target and an internal ethnicity target linked to Black, Asian and Minority Ethnic colleagues. Achievement against our 2021 D&I plans forms part of the People dashboard and is part of the overall Group performance Scorecard which informs bonus outcomes for executives and colleagues.

We are also committed to transparency. Throughout the year we publish various reports, including our Gender Pay Gap report, and further information on our inclusion and diversity webpages.

How we are governed

We are regulated by the FCA and comply with the SMCR. Our Chief Investment Officer is a regulated Senior Management Function (SMF) and is accountable for our responsible investment function. He is a member of RLAM's Executive Committee and chairs the Investment Committee. The Chief Investment Officer is supported by the Investment Committee which meets monthly to discuss investment issues. The Head of Responsible Investment attends these meetings and presents papers for discussion. Our Stewardship and Responsible Investment Report is signed off annually by the RLAM Board. Our proxy voting policies are approved annually by the RLAM Investment Committee.

Supporting our clients' needs

Our clients will naturally have different needs and time horizons, and our investment strategies are aimed at supporting these; whether it is for meeting shorter-term cash requirements, such as for universities or charities, or for very long-term requirements like saving for retirement. We offer a variety of investment options to our clients and engage with them to help them find the proposition that best meets their requirements. However, we fundamentally see ourselves as long-term investors and we look for ways to enhance our clients' capital over the long-term.

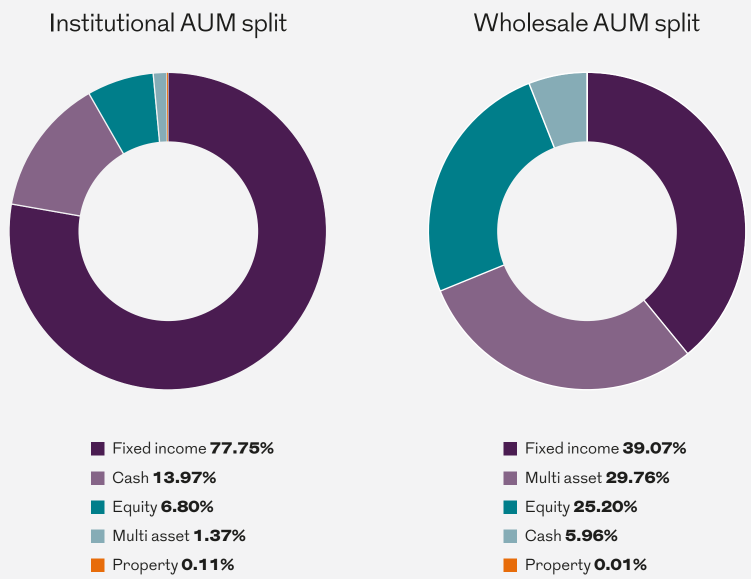
Royal London Mutual Insurance Society (Group)

Our largest client is our parent company, Royal London Mutual Insurance Society (RLMIS). We manage approximately £111 billion of assets for RLMIS, and work closely with our colleagues in the Group Investment Office to ensure our investment strategy and responsible investment activities meet their needs. We continue to work very closely with Royal London Group on stewardship and responsible investment. You can read more about Royal London Group, its investment strategy and governance in our Annual Report, which is available on our website. All of our other clients can be divided into two segments; institutional and wholesale.

Institutional

We manage £27 billion, in assets for approximately 255 external institutional clients. These include local authorities, charities, universities, corporate pension schemes, and insurance companies. The vast majority of these clients are UK-based, with a small number of clients located outside the UK. We work closely with our institutional clients to understand their stewardship and responsible investing preferences and to ensure our propositions are aligned with the needs of their underlying beneficiaries. Our RI team is available to help answer client questions and address any specific stewardship, ESG or exclusion requirements. We have seen a significant increase in the number of clients engaging with us on responsible investment issues, which we have used as an opportunity to review and further refine our approach.

Figure 21: Client split



Figures are subject to rounding and therefore totals may not always equal 100%.

Wholesale

We manage approximately £25 billion in assets for advisory and discretionary firms in the wholesale space. We ensure assets are managed in line with client goals and expectations and provide access to key investment information and data through documentation such as factsheets and investment commentaries which are available on the RLAM website. We will answer due diligence questionnaires and host fund update meetings which some clients use as part of their ongoing monitoring on our funds. Where appropriate, RLAM funds are also risk mapped to risk mapping tools available in the market, which are in turn used by advisers and wealth managers to ensure the selected fund is aligned to their clients' attitude to risk. Understanding how responsible investing forms part of the RLAM approach at both company and fund level is becoming more important to wholesale clients and we spend time engaging with clients to enhance their knowledge in this area. We have held numerous webinars such as videos through BrightTALK, and have sponsored educational sessions on Asset TV, where clients can gain professional development credits.

Product development

We have a structured product development process which we use to bring new solutions to the market. The first stage of this is to complete an idea proposal, for which target market and client needs are among the key requirements. Target market and client needs, along with the business case, are at the core of the product design phase. During this phase, the RI team, heads of investments desks, distribution teams and marketing challenge the investment philosophy, drawing on direct client experience and interaction. It is this process that helps to shape an idea into a viable proposition that addresses a client need and ensures new products are aligned with our responsible investment ambitions. Once the concept is defined, we undertake direct client testing conducted through our existing client base. Where we may introduce a product offering very different from our current product suite, we seek to target and engage with potential clients on the concept and materials that will support the potential launch. Whilst the above is all conducted prior to a launch, it is equally important to ensure that the product continues to meet the needs of clients once it is available to the market. We undertake a substantial review after the first year of a product launch. More broadly, we conduct annual reviews on all funds. In compiling the annual review, we consider any feedback we have received from clients and distributors; sales numbers, client types and investment performance are amongst other metrics.

We also published our second Assessment of Value reports – one covering RLUTM funds and the other RLUM funds – a requirement that came out of the FCA's Asset Management Market Study. These reports cover a formal process where the board of each management company reviews servicing, pricing and other benefits, and makes recommendations on where we may improve customer outcomes. As part of our Climate Risk Policy, we have also made a commitment to embed climate risk considerations when developing new products. Through the annual reviews and the assessment of value, we continue to challenge ourselves internally and invite our clients to do the same. Given the competitiveness of the market, we recognise that to retain our client base we must ensure we are continually meeting the needs of our clients by developing and evolving our products to deliver expectations.

Performance management and reward

As we are a member-owned business, we have a natural alignment with our clients. We aren't seeking to maximise quarterly returns to shareholders, but rather are focused on building our business in the best long-term interests of our members. Remuneration for our people, including fund managers and analysts, is intimately tied to our successful delivery of better outcomes for our customers through a scorecard approach to bonus delivery, which considers a wide range of metrics. The continued development of RLAM's responsible investment strategy is a key pillar of our strategic vision for 2025. As such, our progress on responsible investment is tracked through the RLAM Business Scorecard. This has a direct link to the calculation of discretionary bonuses for all staff, dependent on year-end outcomes. We evaluate our people's performance on both 'what' they deliver as well as 'how' they deliver it – paying particular focus to how they deliver good customer outcomes and demonstrate the Royal London values.

Our investment professionals have a specific performance goal relating to responsible investment and integrating ESG considerations into the investment process. The impact of ESG on investment risk should be considered and documented for all investment decisions. In addition, ESG and the sustainability impacts of investment decisions should be understood with a view to minimising and/or mitigating those impacts in accordance with the objectives of the fund. This performance goal supplements existing remuneration incentives for investment specialists and the wider senior population, which are tied to the long-term financial performance of our funds. RLAM's remuneration is structured in a way that incentivises our people to deliver the best outcomes for our customers over the short- and long-term while considering ESG risks and opportunities, and without taking excessive risk.

Training and education

Our investment teams receive a mix of practical on-the-job and formal training on stewardship and responsible investment. Daily engagement and interaction between our investment teams and ESG specialists provides ongoing practical training for fund managers and credit analysts on what types of ESG issues to look out for and what questions to ask management. In addition, we undertake regular ESG portfolio reviews with a number of our investment teams, which provide a formal opportunity to sit down and highlight specific ESG risks or opportunities within the investment fund and have a discussion about the relative risk to the fund from a financial perspective. Finally, we undertake other formal training sessions, such as workshops, with our specialist research providers, or internal training conducted by our RI team. Investment teams receive coaching sessions on responsible investing, tailored to their strategies. The coaching sessions may include key topics like industry terms and definitions, best practice standards, frequently asked client questions, key messages on responsible investment from the fund manager's own perspective, and examples where ESG factors have directly affected investment decisions. Specific training on issues relating to climate risk and the path to net zero will continue to be undertaken.

Risk management and monitoring

RLAM employs a decentralised risk management model under which a risk management framework is integrated into our business processes. We have a clear and well-documented organisational accountability covering the board, committees, functions and individuals which are laid out in terms of reference for the board and committees, as well as in policies and procedures. RLAM's approach to risk management recognises the fiduciary nature of our business and our duty to act in the best interest of clients and members at all times. There are two integral components of our risk management framework; enterprise risk and portfolio risk. The RLAM Board - Risk & Capital Committee - has an oversight of the overall risk management framework to ensure it is appropriate for the services we provide to our customers, interests of our Group parent and aligned to industry-wide practices. Enterprise risk management is based on the Royal London Group-wide risk taxonomy and covers RLAM's proprietary risks which can be financial, operational or strategic in nature. As part of a forward-looking enterprise risk management approach we monitor emerging risks, geopolitical developments, as well as the overall market landscape. This allows timely identification of any market-wide or systemic issues and supports our commitment to stewardship and responsible investment. Identified risks are swiftly escalated internally in line with the risk management approach and an adequate response is defined by the business.

In 2021, we undertook the following activities to better manage our strategic and investment ESG risk:

- Produced and disclosed our first TCFD report.
- Formal identification of RLAM's Principal Adverse Impacts.
- Undertook a full review of the risks and controls governing how we manage exclusions.

Our in-house economist, Melanie Baker, provides support to portfolio managers in making strategic investment decisions, whilst the Investment Risk team carries out an independent monitoring of risk exposures in the portfolios we manage. In case of any wider market events, it is the responsibility of portfolio managers to take adequate actions with regards to portfolio allocation and any potential restructuring or strategy adjustments. This includes a review of risk tolerance levels and investment objectives to identify and appropriately address unintended sources of risk resulting from market developments and forecasts.

Managing conflicts of interest

RLAM is fully committed to the highest degree of professionalism, integrity and governance in doing business and ultimately to treating our customers in a fair and consistent manner. RLAM has a detailed conflicts of interest policy that all members of staff are required to read and adhere to. Overall responsibility lies with RLAM's senior management who are responsible for ensuring that RLAM systems, controls and procedures are adequate to identify, manage and monitor conflicts of interest. RLAM's senior management has responsibility for ensuring that RLAM staff are aware of the aspects of the policy relevant to them. The policy is updated annually by the Risk and Compliance team. RLAM is 100% owned by RLMIS. RLMIS believes incorporating material ESG issues within the investment process is in customers' best interests. These functions report directly to the RLMIS Board, which is ultimately accountable for the management of risk within the Group and reviewing the effectiveness of internal control, including those related to conflicts of interest. Failure to adhere to our policies may be held to be a breach of an employee's contract. Failure of a person to declare an interest will be regarded as misconduct and may lead to disciplinary action being taken against the individual concerned.

Potential conflicts of interest:

- Where an investment is also a client.
- Where the interests of two RLAM clients conflict.
- Between RLAM and Royal London Group.
- Where an employee of RLAM is a director of an investee company.

The policy provides detailed guidance with respect to management of conflicts that might arise in relation to the order and execution of trades, access to inside information, management of client accounts, voting and engagement, confidential client information, gifts and entertainment, additional employment or consulting activities, and new product launches. RLAM's policy is to take all reasonable steps to properly identify and manage conflicts of interest and always to act in the best interest of our clients, so that transactions are effected on terms which are not materially less favourable to the client than if the conflict had not existed. The business maintains a Conflicts of Interest Register and a Conflicts of Interest Events Log. Should a conflict be unavoidable, RLAM will strive for appropriate and sufficiently detailed disclosure to the client. The disclosure must include the general nature of the conflict and/or the sources of that conflict and be provided before

(Cont.)

Risks reviewed in 2021

Climate risk

In 2021, we continued efforts to manage the impact climate change could have on our business. We consider climate risk to be a systemic financial risk, that manifests through both transition risk and physical risk. Climate transition risk results from the socio-economic transformation to a net zero economy, while physical climate risk relates to the impacts of chronic changes and extreme weather events from an already altered global climate. We seek to manage climate investment risk in three ways; incorporating material climate risk considerations into investment decision-making processes, using proxy voting and engagement as tools to influence company and regulator behaviour, and ensuring it is integrated into our risk framework.

In 2021, we pledged our commitment to the Net Zero Asset Manager's Initiative which will see us achieve net zero carbon emissions across our investment portfolio by 2050. The changes introduced to our existing passive range in 2021 was one notable example of the type of actions we can take. By successfully introducing an ESG tilt methodology to these strategies, the funds have significantly reduced their carbon intensity compared with their respective benchmarks (10% UK, 30% all others).

Climate transition and physical risk will remain an ongoing priority in our engagement and voting approach following our engagement priority consultation in the summer of 2021. We have also improved means for assessing and interpreting climate data internally through the use of in-house tools to enhance integration of climate risk across the strategies we manage. Additionally, we published our first TCFD report in Q1 2021, which shortly followed the release of RLAM's formal Climate Risk Policy.

A more detailed account of climate risk management can be found in our Climate Risk Policy and TCFD Report.

Regulation

We operate in a highly regulated environment, and so changes in laws or regulation may restrict or impact our ability or desire to do business. In recognition of this, it is incumbent on us to ensure that we remain compliant with applicable regulations that impact our business and the markets we operate in. To ensure we continue to be aligned to new regulatory developments, we have a team that scans for new and future regulatory activity and provides a preliminary assessment of business impact. This moves to a partnership between our regulatory change team and the impacted business units to ensure that the regulatory change is understood with associated impacts and that the necessary amendments are made to ensure compliance. The specific consideration for ESG regulation has been a particular consideration within our business.

With ESG trends existing as a prevailing theme in investing, there continues to be an expectation of further regulatory activity internationally, as well as heightened client expectations. This risk has been identified as a key evolving risk by senior leaders in our Emerging Risk Forum. Increasing demand for ESG investing solutions has seen a rapid rise in recent years, which has led to growing scrutiny and regulatory pressure, predominantly with consideration to consumer protection. The approach to regulatory considerations for ESG has varied internationally, with a divergence of regulatory interpretation, terms and definitions as well as applications of taxonomies and whether self-governed or awarded (i.e., labels). As we seek to expand our business internationally, there is also a threat that it will become more difficult to meet the differing standards across jurisdictions as already seen between the UK and EU. In 2021, RLAM took a proactive approach to the implementation of SFDR which necessitates the sustainable classification for EU-domiciled funds and we are working through considerations on the taxonomy and principle adverse impacts (PAIs), as well as seeking to provide helpful solutions to our clients in respect of the Sustainability Preference considerations under MIFID. As with all regulation, we seek to be a helpful partner to industry bodies and regulators and, as an example, we are continuing to provide input into the discussion on the UK's Sustainability Disclosure Requirements (SDR).

Changes in customer behaviours

How our customers access our investment strategies is of critical importance to our business. We therefore want to ensure we have the right products and structures for our customers to access, and operate in an optimal range of distribution territories where we believe our solutions can meet client needs. Increasingly, we are seeing trends of personalisation and customisation become more prevalent among clients, which has precipitated the risk being captured and discussed at our Emerging Risk Forum amongst our senior leaders.

The risk is somewhat emphasised by changing behaviours resulting from activities adopted within the pandemic, but also through changes of the needs of our clients. This manifests itself in several ways such as customisation of investment strategies, utilisation of fund-of-one investment vehicles and the potential to move to more digital solutions that allow swifter trading. We have adopted a five-year product strategy which seeks to address client articulated needs and consider the market environment, alongside working on digital and infrastructure solutions that will help continue to expand the breadth of solutions we offer. We continue to work with market participants and industry bodies on considerations around new innovations.

undertaking the relevant business for the client. This will allow the client to make an informed decision on whether to accept the conflict or terminate the activity. A summary of our Conflicts of Interest policy is available on our website and the full policy will be made available on request.

In 2021, we logged two conflicts of interest related to stewardship and responsible investment. These both resulted from meetings and correspondence regarding a takeover bid for DMGT. Kevin Parry, the Chairman of Royal London Group and RLAM's parent, also serves as non-executive director of DMGT. All relevant procedures were followed to log and manage the conflict in line with our policies.

Relationship with Royal London Group

RLMIS and RLAM have complete commitment to the highest standard of integrity and governance in treating our customers fairly, and take all reasonable steps to identify actual or potential conflicts of interest. We operate and maintain arrangements to minimise the possibility of such conflicts giving rise to a material risks which may damage the interests of our customers.

However, potential conflicts of interest may rise from either the relationship between RLMIS and RLAM; or due to management across different customer cohorts. To address risks around our relationship with RLMIS, RLAM has put in place a specialised team dedicated to managing the relationship between Royal London and RLAM. The Strategic Partnership team can identify potential conflicts before they arise and communicate with RLMIS on a day-to-day basis. The RLMIS Investment Office and Investment Proposition teams interface directly with RLAM through the Strategic Partnerships team. Any conflict of interest between RLAM and RLMIS is dealt with through the Strategic Partnerships channel. RLAM, through the Strategic Partnerships team, is responsible for ensuring its clients are not materially disadvantaged as a result of its relationship with RLMIS, its single largest investor.

Additionally, RLMIS implements two assessments to ensure RLAM's appropriateness to manage the majority of RLMIS's assets. The first is a triennial review of RLAM's suitability, which includes a review of our governance, investment philosophy, investment performance, and fees, amongst other things. The last review was conducted in 2019, and it was concluded that RLAM continues to be an appropriate manager of RLMIS's asset. The second is a Responsible Investment Monitoring Programme that RLMIS uses to review its asset managers' responsible investment capabilities. This involves detailed questionnaires and increased quarterly monitoring of RLAM's responsible investment activity.

Inside information

When engaging with companies, it is our strong preference to not be made an insider, as this restricts our ability to trade. However, on occasion, we will voluntarily agree to be given inside information in order to aid in our discussion with management or the board. Should we agree to be taken inside, the company is immediately put on our Restricted Stock List. The List is programmed into our trading systems and all fund managers in the business will be unable to trade the security. Once the information is made public, a member of the Executive Committee will provide sign-off to allow the fund managers to lift the trading restriction.

There are occasions where we have been taken inside involuntarily or inadvertently in our discussions with a company. In accordance with our Market Conduct Policy, RLAM staff are required to immediately put the stock on the Restricted Stock List, as described above, if they feel they were provided information that is not in the public domain. Staff are provided training and assistance by our Compliance Advisory and Legal teams to help identify and understand what constitutes inside information. If the situation is unclear as to whether the information disclosed to us is considered inside information, we err on the side of caution and place the company on the Restricted Stock List.

Disclosure and transparency

Reporting our progress

In keeping with our corporate values, we are committed to being transparent and open about our approach to stewardship and responsible investment. We regularly disclose our voting and company engagement activity via publications such as this Stewardship and Responsible Investment report, 'Responsibility Matters' and on our website through blog posts, articles and press comments. Our Responsible Investing Policy and Proxy Voting Policy are reviewed annually by the RLAM Investment Committee and published on our website. In addition, our comprehensive online database discloses our proxy votes monthly in arrears, explaining where we vote against management or abstain. Our clients receive quarterly reports which provide details on how we have implemented responsible investment and stewardship within their fund. These reports include voting data, engagement examples and case studies, and investment commentary highlighting the ESG considerations that contribute to investment decisions in the quarter. We also regularly meet to discuss ESG issues with clients, and we make our investment staff and RI team available to provide their expert insights. In addition, we disclose our PRI Assessment results on our website. We are happy to respond to any specific requests for information on our stewardship and responsible investment activities.

Review and assurance

RLAM's Investment Committee, Executive Committee and Board reviewed and approved this Stewardship and Responsible Investment Report. In doing so, they consider the report to provide a fair and balanced view of our approach to stewardship and responsible investment. Our Board has also considered whether our stewardship activities are effective and where we can make improvements. RLAM continues to make significant investment in improving the scope, depth and quality of our stewardship and responsible investment activities, including investment in people as well as better RI and ESG tools and analysis.

We have internal controls in place to ensure we follow our own procedures and policies, in particular regarding proxy voting, conflicts of interest, personal account dealing, execution and allocation, and gifts and benefits. These policies and procedures are monitored by the Risk and Compliance team and periodically subject to review by both compliance and internal audit.

In 2021, RLAM's Responsible Investment function underwent an internal audit review. The objective of the audit was to assess if appropriate processes are in place to enable RLAM to deliver on its commitments made to customers on responsible investment. Specifically, this covered areas such as oversight of risks and controls and a review of evidence to substantiate statements made in reporting outputs such as in our TCFD and Stewardship and Responsible Investment reports. The report found that based on the sample testing, sufficient evidence was provided to substantiate the claims RLAM made in the reports. It also found adequate oversight and approval of the reports from the Executive Committee and the Board. The report made recommendations on how to better define and embed controls into our business and evolve the RI risk and control framework in light of the rapid pace of change in the industry.

APPENDIX I

Record of company engagement 2021

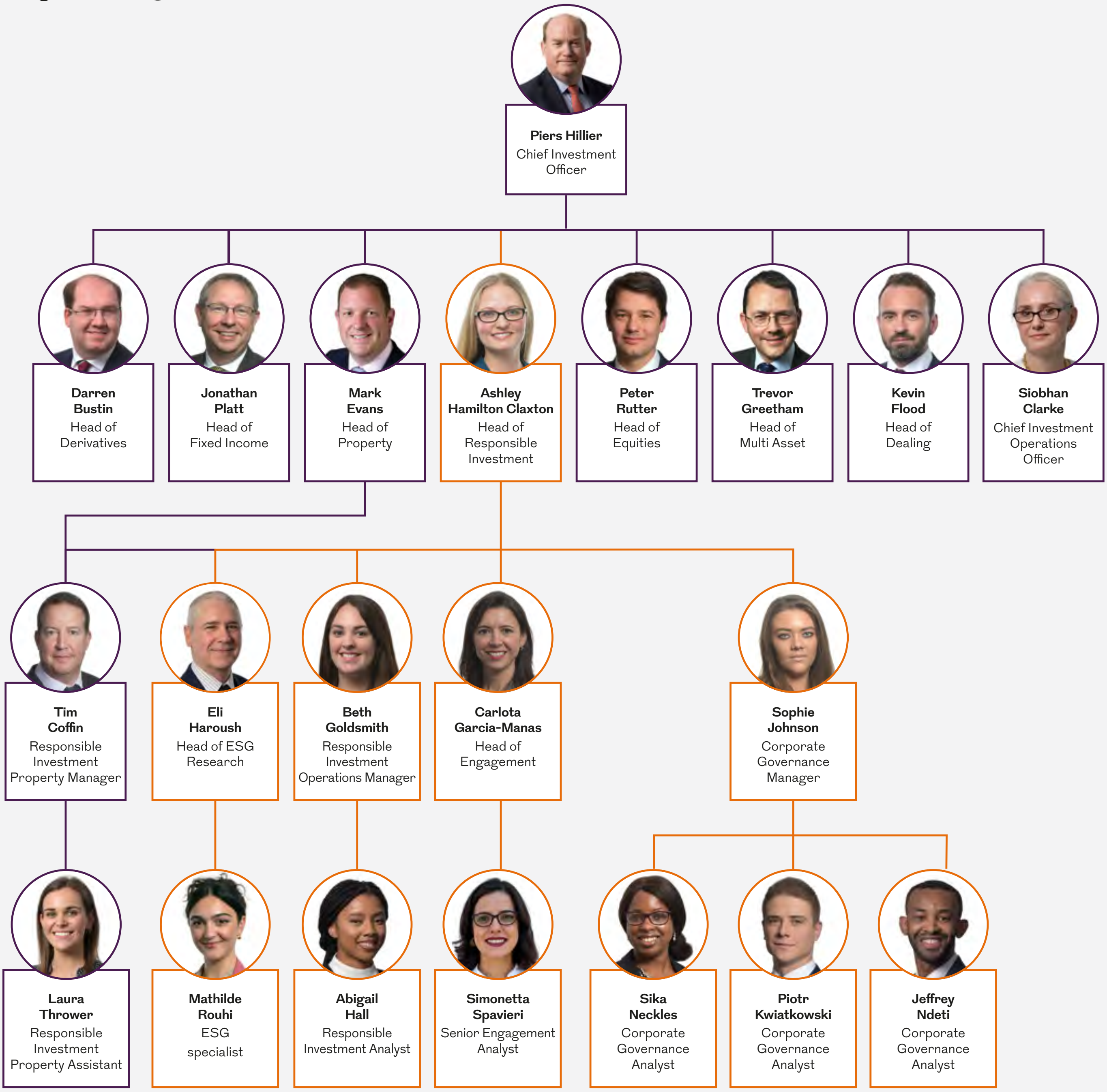
Below is a list of companies we engaged with in the year.

A2A SpA
AA Ltd/United Kingdom
AbbVie Inc
Aboitiz Equity Ventures Inc
adidas AG
Aggregated Micro Power Infrastructure 2 Plc
Air Liquide SA
AJ Bell PLC
Ajinomoto Co Inc
Allegiant Travel Co
Alphabet Inc
Amazon.com Inc
ams-OSRAM AG
Anglian Water Group Ltd
Anglo American PLC
ANSYS Inc
APA Group
Apple Inc
Aptitude Software Group PLC
Aptiv PLC
Arkema SA
Ascential PLC
ASML Holding NV
AstraZeneca PLC
Avista Corp
Aviva PLC
AXA SA
BAE Systems PLC
Baker Hughes Co
Bakkafrost P/F
Ball Corp
Barclays PLC
Bazalgette Equity Ltd
BC Partners Holdings Ltd
Berkshire Hathaway Inc
BHP Group PLC
BNP Paribas SA
Boskalis Westminster
BP PLC
British American Tobacco PLC
Bunzl PLC
Bytes Technology Group PLC
Campbell Soup Co
CDW Corp/DE
Center Parcs (UK) Group Limited
Centrica PLC
Chemring Group PLC
CK Hutchison Holdings Ltd
Clarkson PLC
Clorox Co/The
Close Brothers Group PLC
CLP Holdings Ltd
CMA CGM SA
CMS Energy Corp
Compass Group PLC
Computacenter PLC
Co-operative Bank Holdings Ltd/The
Covestro AG
Cranswick PLC
CRH PLC
CSX Corp
DBS Group Holdings Ltd
Dechra Pharmaceuticals PLC
Delta Air Lines Inc
Deutsche Post AG
Diploma PLC
DiscoverIE Group PLC
Dominion Energy Inc
Drax Group PLC
DS Smith PLC
E.ON SE
Eastman Chemical Co
Electricite de France SA
Electrolux Professional AB
Endo International PLC
Eskmuir Properties Ltd
Eversource Energy
Exxon Mobil Corp
FDM Group Holdings PLC
Federation of Malaysia
Firstgroup PLC
Formosa Plastics Corp
Fuller Smith & Turner PLC
Galp Energia SGPS SA
GB Group PLC
Genus PLC
Glas Cymru Holdings Cyfyngedig
GlaxoSmithKline PLC
Glencore PLC
Great Portland Estates PLC
Greggs PLC
Grifols SA
Grosvenor Group Ltd
Gym Group PLC/The
H2 Equity Partners BV
Halma PLC
Hilton Food Group PLC
Hollywood Bowl Group PLC
Honeywell International Inc
HSBC Holdings PLC
Iberdrola SA
Ibstock PLC
IDACORP Inc
Infineon Technologies AG
Informa PLC
IntegraFin Holdings PLC
Intertek Group PLC
Intuit Inc
Iren SpA
Jabil Inc
James Hardie Industries PLC
Johnson Matthey PLC
Kelda Holdings Ltd
Kemble Water Holdings Ltd
Kerry Group PLC
Kin & Carta PLC
Koninklijke Philips NV
Land Securities Group PLC
LANXESS AG
Liontrust Asset Management PLC
Lite-On Technology Corp
Lloyds Banking Group PLC
London & Quadrant
London & Quadrant Housing Trust
London Stock Exchange Group PLC
Lonza Group AG
LyondellBasell Industries NV
Marshalls PLC
McCormick & Co Inc/MD
Medtronic PLC
Melrose Industries PLC
Meta Platforms Inc
Microsoft Corp
Mitchells & Butlers Finance PLC
Nan Ya Plastics Corp
National Grid PLC
Nationwide Building Society
NatWest Group PLC
Nestlé SA
NextEra Energy Inc
Ninety One PLC
Nippon Express Co Ltd
Nissin Foods Holdings Co Ltd
Nokia OYJ
Norfolk Southern Corp
Northern Star Resources Ltd
Ocado Group PLC
Occidental Petroleum Corp
OGE Energy Corp
OneSavings Bank PLC
Optivo
Orica Ltd
Orpea SA
Panalpina Welttransport (Holding) AG
Paragon Asra Housing Ltd
Peabody Trust
Peel Group Ltd
Pennon Group PLC
Pentland Group Ltd
Philip Morris International Inc
Poplar Housing & Regeneration Community Association Ltd
Procter & Gamble Co/
TheProgressive Corp/The
Prudential PLC
Public Service Enterprise Group Inc
Reckitt Benckiser Group PLC
Reliance Steel & Aluminum Co
Renesas Electronics Corp
Rentokil Initial PLC
Republic Services Inc
Restaurant Group PLC/The
Ricardo PLC
Rio Tinto PLC
Roche Holding AG
Rohm Co Ltd
Roper Technologies Inc
Rothermere Continuation Ltd
Royal Dutch Shell PLC
RPM International Inc
RWE AG
Sage Group PLC/The
Samsung Electronics Co Ltd
Sanofi
Santander UK PLC
Schlumberger NV
Seagate Technology Holdings PLC
Segro PLC
Severn Trent PLC
Shaftesbury PLC
Solvay SA
Sony Group Corp
Southern Copper Corp
Southern Water Capital Ltd
Southern Water Services Finance Ltd
Speedy Hire PLC
SSE PLC
SSP Group Plc
Standard Chartered PLC
Steel Dynamics Inc
STMicroelectronics NV
STV Group PLC
Sumitomo Mitsui Financial Group Inc
Suncor Energy Inc
Swan Housing Association Ltd
Swatch Group AG/The
Taiwan Semiconductor Manufacturing Co Ltd
Texas Instruments Inc
TotalEnergies SE
Town Centre Securities PLC
TSB Banking Group PLC
Ultra Electronics Holdings PLC
Union Pacific Corp
UNITE Group PLC/The
United Kingdom of Great Britain and Northern Ireland
Vectura Group PLC
Victrex PLC
Virgin Money UK PLC
Vitec Group PLC/The Vulcan Materials Co
Wessex Water Ltd
WH Smith PLC

APPENDIX II

Meet the team

Figure 22: Organisation chart



As at end March 2022

APPENDIX III

The UK Stewardship Code

Principles for asset owners and asset managers

Purpose and governance	Document reference
1 Purpose, strategy and culture	Our purpose and strategy, p5 Further reading, p67
2 Governance, resources and incentives	Our approach to stewardship and responsible investment, p6 How we are governed, p68 Performance management and reward, p70 ESG integration, p38
3 Conflicts of interest	Managing conflicts of interest, p71
4 Promoting well-functioning markets	Engagement and advocacy, p8 Setting engagement priorities, p9 Advocacy and public policy, p14 Themes of engagement: 2022-2024, p25 Product development, p69 Risk Management and monitoring, p71
5 Review and assurance	Risk Management and monitoring, p71 Review and assurance, p74

Investment approach	Document reference
6 Client and beneficiary needs	Setting engagement priorities, p9 Themes of engagement: 2022-2024, p25
7 Stewardship, investment and ESG integration	Our approach to stewardship and responsible investment, p6 ESG integration, p38
8 Monitoring managers and service providers	Risk Management and monitoring, p71 Proxy voting research, p37

Engagement	Document reference
9 Engagement	Engagement and advocacy, p8
10 Collaboration	Investor collaboration, p13
11 Escalation	Escalation and public comments, p12

Exercising rights and responsibilities	Document reference
12 Exercising rights and responsibilities	Our approach to voting, p34

APPENDIX IV

The UN Principles of Responsible Investment

Principle	Document reference
1 We will incorporate ESG issues into investment analysis and decision-making processes.	Our purpose and strategy, p5 ESG integration, p38
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.	Our approach to stewardship and responsible investment, p6 ESG integration, p38 Engagement and advocacy, p8 Governance and voting, p28 How we are governed, p68 Supporting our clients' needs, p68
3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Engagement and advocacy, p8
4 We will promote acceptance and implementation of the Principles within the investment industry.	Our approach to stewardship and responsible investment, p6 Escalation and public comments, p12 Advocacy and public policy, p14
5 We will work together to enhance our effectiveness in implementing the Principles.	Our approach to stewardship and responsible investment, p6 Investor collaboration, p13
6 We will each report on our activities and progress towards implementing the Principles.	Disclosure and transparency, p74

Signatory of:

PRI Principles for Responsible Investment

Useful links

RLAM Responsible Investment web page

RLAM Sustainable Investing web page

RLAM Sustainable Finance Disclosure Regulation (SFDR) web page

FRC UK Stewardship Code 2020

FRC UK Stewardship Code Signatories

PRI Definitions and terminology

Responsible Investment Policy

RLAM TCFD 2020

Investment Risks

Royal London Global Sustainable Equity Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Concentration risk: The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets Risk: Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London Global Sustainable Credit Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit Risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate Risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets Risk: Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Responsible Investment Style Risk: The Fund can only invest in holdings that demonstrate compliance with certain sustainable indicators or ESG characteristics. This reduces the number securities in which the Fund can invest and there may as a result be occasions where it forgoes more strongly performing investment opportunities, potentially underperforming non-sustainable funds

Royal London Global Equity Select Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Concentration risk: The price of Funds that invest in a reduced number of holdings, sectors, or geographical areas may be more heavily affected by events that influence the stockmarket and therefore more volatile.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets Risk: Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London UK Mid-Cap Growth Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London UK Smaller Companies Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Smaller Company Risk: The Fund invests in smaller companies, the prices for which can be less liquid and be more volatile than those of larger companies and therefore may have a greater impact on the value of the Fund.

Royal London UK Equity Income Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Charges from Capital Risk: Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Royal London UK Core Equity Tilt Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London Europe ex UK Equity Tilt Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London Asia Pacific ex Japan Equity Tilt Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets Risk: Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London Japan Equity Tilt Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London US Equity Tilt Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London Global High Yield Bond

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit Risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate Risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets Risk: Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Royal London Sterling Credit Fund

Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit Risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Interest Rate Risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Charges from Capital Risk: Charges are taken from the capital of the Fund. Whilst this increases the yield, it also has the effect of reducing the potential for capital growth.

Fund Regulatory Disclosures

The Royal London Global Sustainable Equity Fund, Royal London UK Smaller Companies Fund, Royal London UK Mid-Cap Growth Fund, Royal London UK Smaller Companies Fund, Royal London Europe ex UK Equity Tilt Fund, Royal London Asia Pacific ex Japan Equity Tilt Fund, Royal London Japan Equity Tilt Fund, Royal London US Equity Tilt Funds are sub-funds of Royal London Equity Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000807. The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037. For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com.

The Royal London Global High Yield Bond Fund, The Royal London Global High Yield Bond Fund are sub-funds of Royal London Asset Management Funds plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds. Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. It is a recognised scheme under the Financial Services and Markets Act 2000. The Management Company is FundRock Management Company SA, Registered office: 33 rue de Gasperich, L – 5826 Hesperange, Luxembourg and is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF). The Investment Manager is Royal London Asset Management Limited. For more information on the Fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com. Most of the protections provided by the UK regulatory system, and the compensation under the Financial Services Compensation Scheme, will not be available.

The Royal London Sterling Credit Fund is a sub-fund of Royal London Bond Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC000797. The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037. For more information on the fund or the risks of investing, please refer to the Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.com.

All information correct at 31 December 2021 unless otherwise stated. Source for all data RLAM unless otherwise stated.

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