Stewardship and responsible investment report

January to December 2022

ROYAL LONDON
ASSET MANAGEMENT

Contents

Highlights

We are pleased to present our latest Stewardship and Responsible Investment report. Stewardship and Responsible Investment (RI) is at the heart of everything we do at RLAM. It enhances and complements the investment decisions that we make. It is a long-term activity – but this is an approach that sits naturally with us: our mutual ownership structure, our investment processes, and the investment horizons of our clients all favour a long-term approach.

This report describes our approach to being good stewards of our clients' capital, including how we vote, engage with companies, and integrate environmental, social and governance (ESG) considerations into our investment processes. We produce this report annually as part of our commitment to the UK Stewardship Code and you can see how we meet each of these stewardship requirements on page 108. This year we are also pleased to report against the Australian and Japanese Stewardship codes, which you can see from page 109.

Key highlights from the report this year include:

Net Zero

We rolled out a comprehensive net zero research and engagement program targeting **80 companies** representing approximately 52% of our financed emissions across our AUM. Read more on page 12.

Just Transition

We have expanded our work on the **Just Transition** beyond utility companies and we are now engaging with **banks** and **UK social housing** companies. Read more on page 16.

Remuneration

We continue to challenge companies on their remuneration practices. We had detailed discussions with an engineering company on an exceptional **one-off bonus scheme**. We proposed an alternative approach, which was accepted by the company. Read more on page 21.

Lower carbon footprint

In our ambition to encourage a circular economy and lower carbon emissions, we engaged with Steel Dynamics. The company's electric-arc steel furnaces produce steel with **88% lower scope 1** emissions than the average US blast furnace. Read more on page 25.

Climate metrics

We made improvements to our **data, tools and technology**. This allows us to view fund performance on climate metrics and drill down to see more detail on how funds and companies are performing over time. Read more on page 30.

Voting

In the UK, we voted against or abstained on the re-election of the chairman of the nominating committee at **18 companies** on diversity grounds, compared to 38 in 2021. Globally we voted against or abstained on directors on diversity grounds 345 times, compared to 155 times in 2021. Read more on page 33.

Bondholder

Bondholders worked with Dignity plc to agree temporary covenant waivers when it got into financial difficulty. We worked constructively to balance the needs of the company and its stakeholders yet preserving the economics of our clients' investment. Read more on page 41.

ESG tilts

Since the ESG tilts were introduced into our index aware equity funds in August 2021, in aggregate, the regional pooled funds have reduced their weighted average carbon intensity (WACI) by approximately 22% (to 31 December 2022). Read more on page 58.

Property

In Property, we have developed a sustainable acquisition checklist for new purchases, installed utility loggers to help us monitor the electricity, gas and water usage of our occupiers, started 22 net zero audits in our multi-let office buildings, and completed an initial solar photovoltaic feasibility study. Read more on page 76.

You can read more detail about our policies and processes around voting and engagement in the Further Reading section, starting from page 87. In this section, you will also learn about our governance, how we monitor and manage ESG risks, how we ensure we are meeting our clients' needs, and how we manage conflicts of interest. We regard stewardship as a very important activity at RLAM and want our readers to gain an in depth understanding of what we do and hence the report contains a lot of detailed information, examples and explanations of our approach across our various asset classes. We aim to help clients navigate the report by providing links and signposts within the document or on our website to the relevant information and examples. We will engage with our industry peers and the UK Financial Reporting Council (FRC) to ensure we continually improve our approach to Stewardship reporting with a view to making reports shorter, more concise and easier to navigate for clients in the future.

Foreword

Hans Georgeson
Chief Executive Officer

It feels like we preface each edition of our annual Stewardship Report by stating that we've seen a marked increase in interest in this area over the previous 12 months. And we have seen the same again in 2022.

As was the case with 2020 and 2021, events in 2022 have shown the relevance of Environmental, Social and Governance (ESG) factors and how these are integrated into investment decisions. After Covid and its knock-on effects dominated thinking over the past two years, it was the Russian invasion of Ukraine in 2022.

There is a vivid and terrible human impact that we all see daily through both traditional and social media. As a steward of our clients' capital, we have a duty to react to those events and their aftermath. At a primary level, that involved assessing our direct and indirect Russian exposure (see page 100), but on another level, we have adjusted investment and engagement activities to reflect the fact that soaring energy prices have created cost of living pressures, and disrupted energy supplies have led to a revival of interest in fossil fuel power generation.

The short- and long-term effects will be quite different. In the short term, we expect that the evolving climate-related metrics that we look at for companies and countries will deteriorate. But in the longer term, we believe that this will support the move to renewables – not only for environmental reasons, but also for security of energy supply reasons: why rely on a small number of countries for oil when sun and wind cannot be switched off at the whim of another government?

As we have pointed out here and in the past, our ESG activities continue to evolve and improve. We are proud to be a recognised signatory of the UK Financial Reporting Council's (FRC) Stewardship Code in 2022, and pleased that our efforts were also recognised in our United Nations (UN) supported Principles of Responsible Investment (UNPRI) ratings for 2021. But our approach in this area is an ongoing one. We have no expectation that one day we'll be 'set' – we want to ensure that we are doing the right thing for our investors, the companies we invest in, and wider society. As we see further evolution in data, client needs and best practice generally, so we expect to see further development and evolution in our Stewardship activities.

This report provides an overview of how we fulfil these important commitments.

About Royal London Asset Management

Adding Value For Over 150 Years

Founded as a friendly society in 1861, the mission of Royal London Mutual Insurance Society ('Royal London' or 'RLMIS') was to secure its members' financial stability. That objective has not changed. Royal London Asset Management ('RLAM') was set up in 1988, initially to manage assets on behalf of Royal London members, and then to the wider market.

The following 35 years have seen both RLAM and RLMIS enjoy huge success to become significant parts of their respective sectors within the UK financial services industry. That success is built on a culture of free, fresh, and innovative thinking and investment strategy. That results in a measured, stable, and independent approach to managing assets, which avoids fads, passing trends or a 'copycat' take on investing.

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 the Royal London Group's strategy to be an insight-led modern mutual, growing sustainably by deepening client and customer relationships.

We are owned by a mutual, which distinguishes us in the asset management market and enables us to take a more long-term view. Many of our staff members are also members of the mutual through our pension scheme, and therefore have exposure to Royal London funds, aligning the interests of staff, members and clients.

Successful investing requires a longer-term time horizon, informed by an understanding of the changing environment. Our independent, long-term vision ensures that we not only deliver better financial outcomes for our members and customers, but do this through investing responsibly for society as a whole.

> "Our mutual ownership model helps to distinguish us in the asset management market."

Expertise in Active Investing

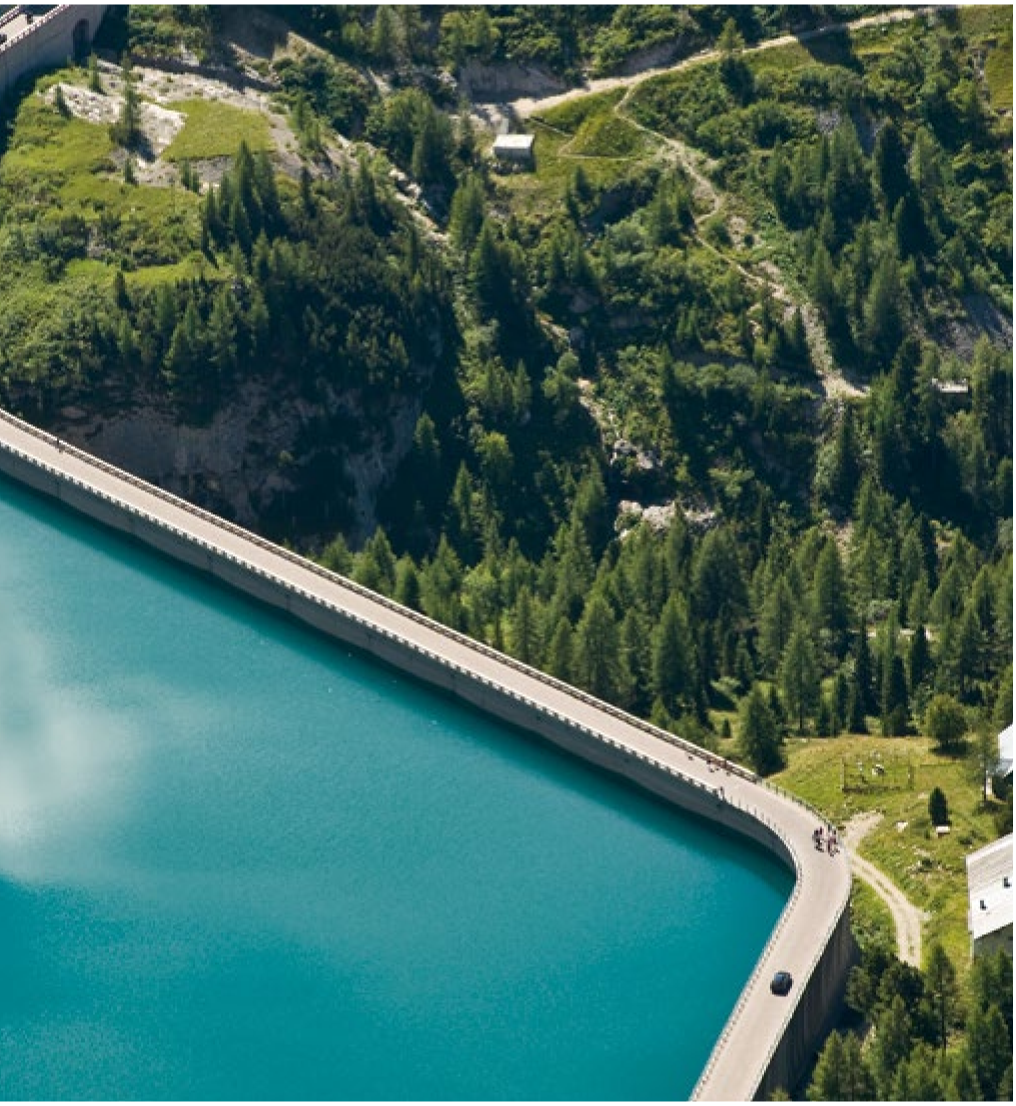
At RLAM, we believe in research-led investing – we look at macroeconomic factors such as growth and inflation, but we believe it is the individual characteristics of companies that are more important when making investment decisions and building active portfolios. Market indices are useful yardsticks, but they can never be the basis for active portfolio construction.

Our active portfolios are built and developed by our dedicated, collaborative teams – we believe that this produces better long-term returns. Avoiding a star-manager culture reduces the effect of one individual's biases and provides a wider base for ideas that can help achieve the best risk/return pay-off for our clients. We aren't afraid for our funds to look very different from the index.

We complement our active stock picking and fundamental analysis with quantitative ESG and climate-tilted strategies that aim to deliver benchmark equivalent returns in a better way whilst incorporating ESG factors. Understanding the needs of our clients means we take a pragmatic view, offering active solutions where we feel our teams can deliver, and quantitative funds where cost-effective market exposure is the top priority.

Responsible Investors

Why is investing responsibly an integral part of our business? Because it's the right thing to do and we believe that better-run companies make better investments. We have been a market leader in the sustainable-investing space for two decades before integrating environmental, social and governance (ESG) criteria became a major part of the asset management industry. For us, these issues have never fallen under the 'nice to have' banner – ESG has been fundamental to the way we analyse and invest in companies for many years.



Our efforts in this are coordinated by our Responsible Investment team, made up of specialists and subject matter experts on sustainability and ESG issues. They work closely with investment teams to help analyse key issues, integrate ESG factors into investment processes, consult on proxy voting, and collaborate to encourage companies to improve performance. Fundamentally, we believe that in today's world, ignoring or downplaying ESG issues is not in the best interests of our clients or society and will hurt investor returns in the medium-to-long term.

The past few years have seen a range of events – from bushfires and droughts, to the pandemic, to the Russian invasion of Ukraine – that demonstrate the relevance and breadth of responsible investing. We can all see that social and environmental issues are now far more prominent in our lives and increasingly affect asset prices. Investors in our funds are asking us for more details on what we are doing, and how our stewardship approach helps them meet their aims and objectives.

We see ourselves as 'active owners'. So we engage with the companies whose shares and bonds we hold on behalf of our clients. 'Engagement' covers a range of activities, from visible ones such as voting at company meetings, to joining trade associations or lobby groups, talking to company management about more traditional issues such as executive pay and equally important areas such as cyber security, mental health or biodiversity.

A Responsible Company

Royal London and RLAM are committed to being responsible investors. This is reflected in the way that we engage with companies we invest in. But responsibility applies to how we manage ourselves as well. We recognise that as a leader in a major UK industry, we have a contribution to make to society in a wider sense, as well as investing assets for clients.

Being a diverse and inclusive company isn't something we do to tick a box – we believe that a more diverse and inclusive workforce, working in an open and friendly environment, leads to better results for our clients. Ultimately, we need to make sure that we get the best people, with the right values, seeking the right outcomes.

An effective approach to diversity and inclusion is therefore a key element in our success as a business. We have a number of initiatives that we believe are supporting our efforts to be a fair, diverse and inclusive employer, including programmes such as the Women in Finance initiative. You can read more about this in the Diversity and Inclusion section on page 95.

We are also aware of our own climate impact, which has led to a number of changes and initiatives. This year we have introduced a new Group-wide Sustainability and Stewardship team and oversight committee. They are working to help coordinate and oversee our approach across Royal London so that we collectively meet our climate and sustainability goals. You can find out more on this in the Royal London 2022 Annual Report.

Stewardship and Responsible Investment at RLAM

Ashley Hamilton Claxton
Head of Responsible Investment

Looking back, 2022 was yet another pivotal year for responsible investing. After many years of significant growth driven by consumer demand for responsible and sustainable investment products, we saw mounting concerns about 'greenwashing' – the act of marketing something as more green or sustainable than it really is. Greater emphasis is now being placed on regulation, with the UK, EU, US, and Asia starting to investigate wrongdoing, and this is leading to new rules and reporting obligations. At the same time, our clients' expectations and needs continue to grow and change, reflecting the greater demand placed on them by investors and savers.

At RLAM, we are continuing to enhance and improve our approach to stewardship and responsible investing because we know it's what our clients want and because it's the right thing to do. We have invested heavily in our capabilities over the last few years. In 2022, we grew our dedicated responsible investment (RI) team to 17 people, including 5 new colleagues in our 'RI Futures Academy' – a comprehensive training programme to develop future RI leaders in RLAM. We have a diverse and enthusiastic team of experts who provide guidance and expertise to all parts of our business on responsible investing, climate, voting, stewardship and ESG analysis. We also continue to enhance our skills and capabilities for our investment teams, bringing on additional resources, data, and tools to support fund management and ESG integration, and to help launch new products. We have developed our ESG Dashboard and fund analytics tools, which now give us the ability to undertake deep-dive climate data analytics or engagement reporting on our funds. I'm also proud of the work we've started to measure sustainability outcomes and look forward to developing this further next year.

RLAM's engagement with companies continues to be core to our approach to responsible investing. This year we put a significant amount of focus on our net zero engagement – identifying our top emitting companies across the assets that we manage, putting them through a rigorous evaluation, and then engaging to align their business models with net zero. We continued our work on cybersecurity, water utilities, workforce engagement and ethnic diversity – projects we have been running for several years now. In addition we started new research and engagements projects on gender diversity in Japan, biodiversity, corporate culture and mental health.

Our engagement approach is complemented by our robust and bespoke approach to proxy voting. We take this responsibility very seriously – we don't auto-vote, and a member of our team looks at every single vote before it is submitted on behalf of our clients. We are also committed to full disclosure of our voting, being one of the leaders in the UK by providing public vote disclosure since 2002.[1] All our votes are available to view in the responsible investment section of our website www.rlam.com. We are also working more closely with our clients to get their feedback on our voting approach and voting policies, to help make sure we reflect their wishes and views.

We are aware that our role as responsible, long-term stewards of our clients' capital is now more important than ever. We must help our clients prepare for increasing regulatory complexity. We need to respond to consumer demand for better disclosure as they interrogate and scrutinise our products. We need to work with governments and regulators to make sure new rules support the best outcomes for our customers. And most importantly, we need to act collectively to respond to and address multiple ESG crises – whether that be the cost of living, climate, mental health issues, post-Covid recovery, or the strain on our diverse global ecosystems.

You can read more about our key stewardship highlights in 2022 in the sections below.

> "Engagement with companies continues to be a core part of our approach."

1 Our voting records are disclosed for the Co-operative Asset Management from 2002 for UK companies and 2004 for overseas companies. Voting records are disclosed for RLAM funds from 2015. The Co-operative Asset Management was acquired by RLAM in 2013.

Engagement

We believe that regular engagement with companies has a positive cumulative effect. Successive meetings help us build our understanding of the direction of travel, allow us to offer our perspective and in turn build a mutually beneficial relationship. Ultimately, **our goal is to have a positive influence on corporate behaviour.** Assisting companies with improving their practices, governance and oversight, managing their impact on society and the environment, and improving performance overtime.

We engage across a spectrum of strategic, environmental, social and governance (ESG) issues. This forms a core component of our stewardship responsibilities. As an active asset manager with a long-term investment view, it is an activity that many of our clients have come to expect from us.

We engage with companies on both a reactive and proactive basis.

Reactive Engagement

This type of engagement, on the whole, cannot be planned. It is in response to real world events and requires us to react quickly. It can largely be attributed to the following events:

- Market events – such as rights issues or breach of covenants
- Governance issues – such as remuneration consultations or board changes
- Company announcements
- ESG risk events
- At a company's request.

Proactive Engagement

By contrast this engagement is pre-planned. We start the year with an idea of where we wish to focus, but of course will adapt if required by external factors. Proactive engagement is:

- Driven by our priorities
- Supported with a project plan and research
- Intended to drive real world outcomes wherever possible.

More information on 'When and how we engage' can be found on page 88.

> "Our goal is to have a positive influence on corporate behaviour."

Engagement Themes 2022-24

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

We review our engagement themes every two years and the last review was completed in 2021. Further details on our selection process can be found in the Further Reading section on page 87.

Our six engagement themes for 2022–2024 are:

Climate change

Net zero: Creating a Paris-aligned future.

Climate physical risk: Building resilience to climate change.

Social & financial inclusion

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

Health

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

Innovation, technology & society

Cybersecurity: Protecting assets and infrastructure.

Technology & society: Building responsible technology.

Governance & corporate culture

Good governance and culture: Creating resilient businesses.

Diversity: Supporting inclusive decision-making.

Biodiversity

Corporate impact on biodiversity: Protecting our natural capital.

Engagement Activities

Below are some highlights of our engagement activities in 2022.

Net zero

When things get hard – try harder.

Global energy systems and economies were severely stressed in 2022. The bounce-back from the pandemic restarted the demand for fossil fuels on an unexpected scale. In addition, Russia's invasion of Ukraine caused a supply shock. 2022 has been a sharp reminder to policymakers of the importance of energy security and affordability. The response has been to double down on the climate agenda, pushing forward delayed investments and policies[2] on energy efficiency, clean energy, and electrification, as the long-term solutions for our energy needs. But at the same time, pressure is mounting on governments to ensure people can heat their homes and demand for fossil fuels is on the rise after the lows of the pandemic.

RLAM has expanded its engagement on climate change, extending the scope and depth of our work. We have also been actively engaging with more companies asking for better disclosure to help us understand company-specific climate risk. We are targeting more sectors and companies on the 'just transition' and have sharpened our expectations and ways of assessing progress on companies' net zero plans.

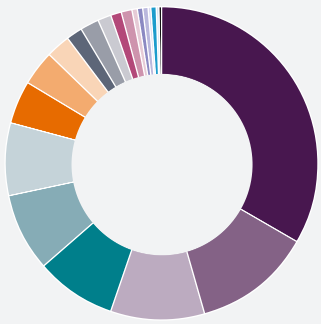
Following the COP27 climate conference, there is more attention on 'loss and damage', and financing for adaptation to climate impacts. At RLAM, we are encouraging companies to plan for climate adaptation (see page 20 on Water Utilities).

2 Examples of policies addressing climate, energy security and affordability in 2022 include the European Union Fit for 55 legislative proposals and the United States Inflation Reduction Act.

2022 Highlights

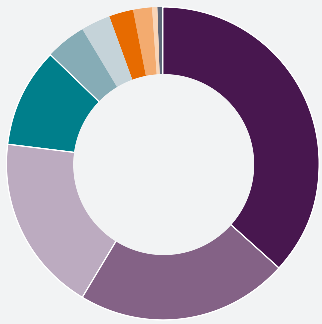
Number of companies: 393

Engagements by topic



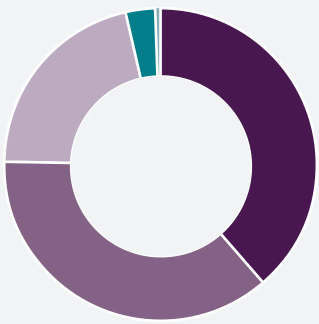
- Climate - Transition Risk **236**
- Mental Health **88***
- Health - Community **67**
- Just Transition **59**
- Corporate Governance **58**
- Remuneration **53**
- Cybersecurity **31**
- Climate - Physical Risk **25**
- Environment **18**
- Gender Diversity **13**
- Labour & Human Rights **13**
- Russia **9**
- Ethnic Diversity **8**
- Strategy **8**
- Social & Financial inclusion **5**
- Board **4**
- Circular Economy **3**
- Other **3**
- Reputational Risks **3**
- Corporate Tax **1**
- Social Bonds **1**
- Succession Planning **1**

Engagements by theme



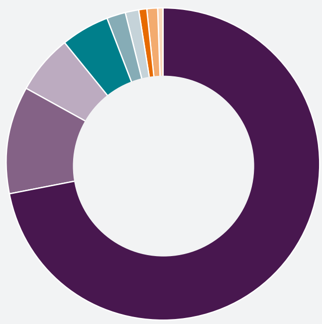
- Climate **261**
- Health **155***
- Governance **128**
- Social & Financial Inclusion **73**
- Technology, Innovation & Society **31**
- Diversity **21**
- Environment **18**
- Social **14**
- Circular Economy **3**
- Other **3**

Engagements by pillar



- Social **273**
- Climate **261**
- Governance **149**
- Environment **21**
- Other **3**

Engagements by objective



- Seek info **509**
- Improve disclosure **80**
- Create or amend a policy **43**
- Make commitments **35**
- Governance improvements **14**
- Change remuneration practices **9**
- Adopt targets and metrics **7**
- Relationship building **7**
- Improve risk and controls **3**

Source: RLAM, for 12 months ended 31 December 2022. Data accurate as of 11 January 2023. One engagement activity with a company can span multiple topics within a pillar and/or across pillars. When logging engagement activity, we record up to three topics per engagement activity (meeting, letter, call etc).

*Represents RLAM's participation in a letter-writing campaign to companies on mental health as part of a collaborative engagement.

Our net zero engagement framework

Actions to deliver on our commitment

Our objective is to evaluate and influence companies representing 70% of our financed emissions. This is a key component of RLAM's commitment to work with clients, companies, and governments to help achieve net zero. Engagement supports the transition of companies and their assets, and in turn helps protect our clients' investments.

We prioritised our investee companies based on their scope 1, 2 and 3 emissions using data from our 2021 climate report, to ensure we encompass all activities and target companies where we can have the most impact.

We have developed a comprehensive engagement programme on net zero. We update our engagement company list each year to reflect changes in portfolio holdings, weightings or emissions. As part of our programme, we evaluate, request and, where possible, help progress companies towards delivering decarbonisation plans. There are six actions we take to achieve this.

1. **Research:** Assess companies' plans against our 12 bespoke net zero indicators.
2. **Engage:** Conduct engagement with companies to improve their climate transition plans, partnering with CA100+ and other investor networks where beneficial.
3. **Vote:** All our votes are carried out in house. We will use our active voting position and other escalation techniques to progress our net zero objectives (see page 31).
4. **Integrate:** Ensure data from climate engagements is flowing and distributed to investment teams for assessment of materiality and appropriate integration into investment processes (see ESG Integration from page 45).
5. **Advocate:** Add our voice to collective advocacy efforts to ensure policies adopted facilitate the achievement of net zero (see page 43).
6. **Report:** We will report progress to clients and relevant stakeholders.

Assessing companies' climate transition plans

RLAM's expectations of credible[3] climate transition plans are based on three overarching asks, supported by 12 indicators. We have shared these expectations with the companies we have engaged in our net zero engagement programme.

These indicators are assessed using a 'Red, Amber, Green' rating. We use various sources of information to evaluate the plans and provide qualitative analysis for each rating. The assessment of companies' climate plans with our 12 indicators informs our climate votes and is shared with our investment teams.

Our indicators share enough commonalities with the CA100+ Net Zero Company Benchmark for us to use them to replicate the three Net Zero Investment Framework (NZIF) categories:

- aligned to a net zero pathway
- aligning towards a net zero pathway
- not aligned.

We assessed **80** companies representing **52%** of our financed emissions

Only **49** companies or **63%** of them are **'aligning towards a net zero pathway'.**

3 RLAM – as part of its membership of the Climate Financial Risk Forum (CFRF) and its participation in CFRF's Transition to Net Zero Working Group – is co-leading a sub-working group focused on defining credible climate transition plans. We will evolve our frameworks to best practices and incorporate further work from HMT TPT and GFANZ on climate transition plans.

Coal – supply and demand

Coal-fired power generation increased across Europe and emerging markets in 2022. Reducing coal supply is an imperative to stabilise the climate and we are engaging to ensure companies focus on phasing out this highly carbon-intensive fuel.

We are acutely aware that the coal supply phasedown must go hand in hand with demand. This year, we asked Anglo American to share lessons learnt from the demerger of their Thungela coal unit, notably how the spin-off from this South African coal asset led to increased coal production.

> “The coal supply phasedown must go hand in hand with demand.”

Coal supply: Glencore plc

Glencore plc is a diversified miner with quantitative targets for their entire scope 3 emissions; this is predominantly emissions from Glencore clients burning the coal they produce. Effectively this means the company has committed to winding-down and closing its coal mines. This year we asked the company to test its medium and short-term targets using coal-specific scenarios. Glencore's current targets can be considered aligned with the Paris Agreement if assessed against trajectories for fossil fuels including oil and gas. These targets however may need recalibrating against coal-specific pathways. Crucially, we asked Glencore to clarify its expansionary capital spending for thermal coal, acknowledging that it has significantly reduced this and that there is evidence of prioritising spending for lower carbon minerals and metals.

Coal demand: CLP Holdings

Focusing purely on coal demand in Asia where it is most significant and growing, we met CLP Holdings, an energy utility based in Hong Kong, twice in 2022. We were pleased to hear that the company did not see any significant barriers to decarbonisation in Hong Kong, India, China, or Australia. The company has coal-fired plants in all these geographies. The company also does not believe divestment is the correct approach to delivering its climate targets and that just transition is a priority. We later met CLP's Head of Sustainability and requested the company provide further details on their coal phaseout plans and just transition. CLP is exploring options to replace coal generation. Enabling additional renewables to come on stream is part of the puzzle, as well as capacity mechanisms such as battery storage and pumped hydro technologies (see page 57).

Just transition

Building on success – social impact of climate becomes mainstream.

For a number of years, we have been advocating for a 'just transition' which asks companies and governments to consider the social implications of moving to a low-carbon economy. It is an inclusive approach which helps avoid exacerbating existing injustices or creating new ones. RLAM has engaged on just transition since 2019, in collaboration with the Friends Provident Foundation (FPF). The just transition is integrated into our net zero engagements and assessments, and will form part of RLAM's own climate transition plans. We also use our networks to support policy and advocacy efforts on the just transition. We are delighted that this concept, first mentioned in the Paris Agreement, is now becoming mainstream for companies and investors (see advocacy section on page 43).

The energy and cost of living crisis faced by much of the world this past winter shows how important and interlinked the issue of climate change is with issues of social justice, inequality and poverty. That is why we continue to take a holistic approach to climate change, aiming to understand its linkages to nature and society issues.

In 2022, we have focused our just transition engagements on three sectors: energy utilities, social housing and banks.

Energy utilities – from policy to action

SSE, National Grid, Centrica, EDF, EON, Eversource Energy

We were one of the first investors to start working on the just transition in the energy utilities sector. In 2022, RLAM's work was recognised in best practice guidance published for financial institutions.[4] In addition, US and European investors have used **RLAM's 'expectations'** on a just transition for energy utilities and adapted them for their markets. On our website, there is a summary of our success ahead of COP26, where five energy utilities created just transition strategies, including a world first.

Centrica was the first energy utility to incorporate just transition into their climate transition plan and put this to a shareholder vote. In 2022 their emphasis has been on affordability and advocacy with the UK government, focusing on regulatory changes for the retail energy providers market and direct support for customers.

We also encouraged companies that had published just transition plans to follow up with evidence of action and, if possible, quantitative indicators to measure progress. EDF for example reported how it has ended power cuts for vulnerable customers and opened a technical university for nuclear energy skills.

This year, following pressure from RLAM and our collaborative partners in the US, we saw National Grid publish their principles on just transition. The strategy was built on stakeholder feedback and included perspectives from customers in the US northeast, with a greater focus on environmental justice and racism. Also in the US, RLAM joined the Interfaith Centre of Corporate Responsibility (ICCR) meeting with Eversource Energy. We queried the quality of jobs in their proposed geothermal projects to provide low-carbon heating in Massachusetts.

4 LSE report 'From Grand to Granular: translating Just Transition ambitions into investor action LSE report 'Making transition plans just: how to embed just transition into financial sector net zero plans' and to International Labour Organisation: Just Transition finance tool for banking and investing activities.

Social housing – focusing on the most vulnerable.

Clarion, Hastoe, Home Group, Housing 21, L&Q, Notting Hill Genesis, Peabody, Places for People, THFC

We engaged with eight UK housing associations as well as the largest lender in the sector. Our goal was to better understand the challenges and identify what support investors and policymakers can give, enabling them to care for their residents while transitioning to net zero.

Inflation and broader cost of living increases mean fuel poverty is a pervasive issue. Residents in social housing are disproportionately affected as some of the most vulnerable members of society. Decarbonising homes through retrofitting presents a once-in-a-generation opportunity to create more comfortable homes, lower fuel bills, and significantly reduce fuel poverty.

While doing their best to care for residents, housing associations face competing demands for their limited capital, coming from health and safety requirements, new home development, and retrofitting. The necessary increase in spending could negatively impact the sector's credit ratings, particularly given the negative economic backdrop and the cap on the amount of rent that housing associations can charge.

While challenges are shaped by housing associations' individual characteristics such as housing type, tenant type, size, and financial position, RLAM has identified learning points and best practices. You can read about our findings, recommendations, and advocacy asks here.

Banks – following the money

Barclays, HSBC, Lloyds Banking Group, NatWest

Provision of capital plays an essential role in enabling customers to transition to sustainable low-carbon economies. By incorporating just transition into their climate transition plans, banks can assist the wide range of sectors, regions and communities they finance.

At the AGMs of Barclays, Lloyds Banking Group, NatWest and HSBC, RLAM and the Friends Provident Foundation (FPF) asked the banks to consider integrating just transition throughout their climate transition plans. We met all four banks in Q3, rearticulating the business case and providing suggestions on how integrating just transition into their plans would look.

All banks appeared enthusiastic to integrate just transition into their work and reporting, yet they remain uncertain on how this will look in practice. NatWest considers its purpose to be closely aligned with social impact and this guides how they implement climate commitments. Barclays focused on its role in community investments and how this can be linked to urban regeneration. Lloyds Banking Group has examples of supporting SME finance for climate solutions. Around COP27, HSBC announced its support of the Just Transition Energy Partnership for Indonesia and Vietnam, and shortly after, they included just transition as an objective of their energy policy, being the first bank to do so.[5] You can read more in our HSBC case study on page 75.

We published our investor expectations for banks on just transition, with the support of the LSE Grantham Institute and the FPF.

5 https://www.hsbc.com/news-and-media/hsbc-news/our-energy-policy-to-support-net-zero-transition

Cybersecurity

This year we launched phase three of our cybersecurity engagement programme targeting 12 companies that could face higher risks from cyberattacks due to their exposure to threat, technology dependency, and service criticality. In addition, this year we:

- Used our new investor expectations to better understand cyber resilience.[6]
- Assessed leadership and resources in governance and risk management, corporate culture, and systems.
- Explored supply chains and corporate actions (M&A) as areas of greater risk.

Hybrid working has increased corporate reliance on technology. This, with increasing geopolitical tensions and the Russia/Ukraine war, has amplified potential cybersecurity risk. Engagement with our investee companies has been key to furthering our understanding, given the confidentiality of policies and general lack of public disclosure in this area.

We found that companies are reticent about disclosing information as regulation is limited and many breaches do not require disclosure. The US Securities and Exchange Commission (SEC) proposed a new rule this year which would enhance and standardise cybersecurity disclosure by public companies. This includes timely disclosure of material incidents and other areas covered in our investor expectations, such as the board of directors' oversight of cybersecurity risk. We co-signed a response to the SEC supporting the proposal and highlighting the alignment between our observations and experience talking to companies about cyber threats, and the SEC's proposal.

We have contacted 49 companies across the three phases of this project, with a 69% response rate. We found that regulators in sectors such as financial services, infrastructure, and healthcare have increased scrutiny and have demonstrated enhanced risk oversight. In order to drive further outcomes, in 2023 we plan to move away from these highly regulated sectors to companies that have a history of poorer cybersecurity performance.

[More can be read in our cyber security engagement phase 3 report.]

6 Investor expectations: cybersecurity engagement | Intermediaries | RLAM

Gender diversity in Japan

RLAM led an engagement programme with five other investors as part of our membership of the 30% Club Investor Group, targeting nine companies and advocating for greater gender diversity. Our formal ask is 30% gender diversity at board level, but we also encourage companies to set targets throughout the workforce. We believe that the 30% level is appropriate at this stage, as research has shown this is the point at which minority voices challenge the status quo.

After meeting with all nine companies, we identified the following common themes which were preventing companies from achieving greater diversity faster:

Cultural barriers

As women have only recently started climbing the career ladder in this market, cultural barriers shouldn't be underestimated. Societal norms are changing, and women are now building longer-term careers; but without conscious effort and encouragement from the top, progress is slow. From our meetings it was clear that diversity is discussed frequently at board level; but companies were not receptive to the idea of using targets and formal policies to help drive progress and provide accountability. We were clear in our preference for formal targets.

Experience and age bias

When recruiting for the board, it was apparent there is a clear experience and age bias at play, with companies expecting candidates to have many years of experience before being considered for board seats. We suggested establishing mentoring and training programs to fast-track candidates, providing them with the exposure and training they might otherwise not receive, and over a shorter period of time. One company was receptive to this idea but maintained that they would only appoint board members with extensive executive leadership experience. Early efforts are being made by another company to work with recruiters on removing these biases.

Career breaks and flexible working

Career breaks for childcare, or increasingly to care for elderly family members, are common. With an ageing population, this was one area we found to be relatively advanced. Flexible working policies to allow carers to reduce their working hours and spousal relocation support programmes are available. The direction of travel appears positive, but we would like to see evidence of greater levels of uptake of these policies by employees.

The companies we met were keen to understand what best practice looks like for investors and were receptive to most of our suggestions. Regulatory changes are also slowly taking place. In April 2022, disclosure requirements under the Act on Promotion of Women's Participation and Advancement in the Workplace, were extended to Japanese companies with more than 100 employees, from the previous 300.

In 2023 we are aiming to widen the scope of this engagement to other aspects of diversity including nationality, ethnicity, and age.

A heavy machinery producer in Japan

We were told of the difficulties in appointing female board members at this company. The challenge was the low number of women with 25-30 years' experience in the sector. This was a strict requirement for the company. We suggested investing in training programmes, allowing female prospects to develop their skills and experience at a faster rate. Across the workforce, we noted a year-on-year increase in the ratio of female managers, which was attributed to the company's decision to increase the rate of new female hires over a decade ago and the extension of employees' tenure over the years. Disappointingly, the company had no immediate plans to develop a diversity policy but highlighted that this may change seeing as global standards are constantly evolving.

Water utilities

Anglian Water, Dwr Cymru Welsh Water, Northumbrian Water, Severn Trent, Southern Water, Thames Water, United Utilities, Wessex Water, Yorkshire Water, South-West Water, South-East Water.

Given the importance of this sector in many of our sterling credit portfolios, we have a history of research and engagement with UK water utility companies dating back to 2018. The recent downgrades in Environmental Performance Assessment (EPA) ratings for 2021 gave us reason to re-engage this sector. The results were released by the Environment Agency in July 2022, and they were the worst results the sector had seen in the last 10 years. Six of the nine companies they assessed received one or two stars out of a possible four.[7]

The global climate crisis is inextricably linked to water. Climate change is increasing variability in the water cycle, triggering the extreme weather events we are already seeing, making floods and droughts ever more likely, putting a strain on water availability, and posing a risk to biodiversity. As such we re-initiated engagement with the sector, focusing on pollution, approach to water management, adaption to physical climate risk and the impact this has on end customers given the ongoing cost of living crisis.

We sent a letter to each of the 11 companies in scope outlining our asks with requests to engage to better understand the current situation in the UK. We then conducted our own quantitative and qualitative analysis of the water companies using 9 of our own indictors driven by 22 factors to gain a broad understanding of the current situation. From this analysis and our meetings with the companies, we have established best and worst practice for each of the nine indicators. We will be publishing a report summarising our approach and findings later this year.

We will use our research and analysis to shape our expectations for stage two of our engagement programme in 2023. We work with a number of our clients who have expressed an interest in collaborative engagement to join this project. You can read more about how we think about ESG risks in the water sector on page 69.

Severn Trent PLC

RLAM met with Severn Trent four times during 2022 to discuss various topics including flooding, pollution, climate change, governance, and diversity.

Severn Trent outlined its 'Severn Trent Environmental Protection Scheme' (STEPS) programme, which offers grants to farmers across its region, promoting the protection of the local environment, water courses and improving overall river health. Severn Trent is working directly with farmers and provides financial incentives, including regenerative farming practices. 50% of its energy is self-generated from several sources including anaerobic digestion, food waste, solar and hydro power. We believe this is 25% higher than the other water companies we are assessing as part of this project.

Severn Trent's Mansfield project was the first sustainable urban drainage system of its scale in Europe. Through planting trees, creating green spaces, and using permeable paving in the city it aims to help with wastewater and reduce flash flooding to protect customers for the next 40 years. After the project's success Severn Trent is hoping to replicate this in other towns in the future.

Our meetings reassured us that the company is a leader in this space and sets the benchmark for many of these initiatives.

> "Climate change is increasing variability in the water cycle."

7 https://www.gov.uk/government/publications/water-and-sewerage-companies-in-england-environmental-performance-report-2021/water-and-sewerage-companies-in-england-environmental-performance-report-2021

Remuneration

Executive pay is a high-profile and often divisive topic, and one of RLAM's largest areas of engagement historically. We do not advocate for a specific approach to pay. Nor do we have set asks or requirements. Each company is unique, and we approach them that way. We incorporate current and historic engagement, voting, financial performance, market best practice, ESG concerns and any other unique circumstances into our conversations with companies about pay. This bespoke approach is implemented in collaboration with our investment teams and reflects our active investment process.

Case study: a retailer

In recent years, we have spoken publicly about the company's approach to pay and how we voted at the AGM. This followed consecutive years of either voting against or abstaining. We have engaged directly with the company in the past, but not immediately preceding the 2022 vote. Following our comments, the company contacted us wanting to discuss our concerns.

During the meeting we reiterated our stance. Structurally the design of the pay scheme, we believe, is flawed and potentially incentivising the wrong behaviours. The award size, while substantial, was not the main issue. Payments are largely based on a single financial metric, therefore missing the moderating effect of multiple measures. This can lead to large swings in outcomes year-to-year, which are overly impacted by external factors. Outperformance in one year can be 'banked', and used to negate poor performance in the next. Also, for a company publicly committed to several environmental and social concerns, the current absence of these factors was a key question. The company have stated their intention to incorporate ESG measures, but when questioned could not provide any detail.

Following a further meeting with the Chair in November, we remain unconvinced by the company's efforts to address concerns with its pay schemes. Despite receiving a significant level of dissent on its Remuneration Policy this year, the Chair was confident in the current plan being suitable for executives.

Case study: an engineering firm

The company approached us with plans to introduce a one-off award for executives and more than 50 members of the leadership team. There were exceptionally stretching performance targets, with the aim to double the share price within five years. Executives were required to invest some of their own shares in the scheme, there was a lengthy holding period, a commitment to assess any excessive risk taking and an underpin using financial and non-financial factors. The grant was a reasonable multiple of salary; but the cap on the value of awards at the end of the five years was close to 11 times the CEO's salary.

We believe one-off awards need exceptional justification. Running two schemes concurrently is unnecessarily complex and can create competing priorities. We did not disagree with the concept of increasing awards, but we did take issue with the form of awards being suggested. We met the company to discuss this, and our counter to the Remuneration Committee was that a similar effect could be achieved by increasing the award levels under the current structure. If this was not possible or acceptable, then replacing the old structure with the new.

We received a follow-up letter in April outlining the final approach. In response to the feedback from RLAM and other investors, the proposals were dropped. Instead, award sizes under the old scheme were increased to the maximum allowed by the policy. This positive outcome meant that we voted in favour of pay at the AGM.

Workforce engagement

In 2022 we witnessed some very public and severe workforce-related issues which triggered reactive engagement. In addition, we continued to proactively probe companies on their approach to workforce engagement, as a continuation of a project we started in 2021.

Case study: Rio Tinto

In February 2022, Rio Tinto released its external review of workplace culture, which identified findings of systemic bullying, sexism, sexual harassment, racism, and other forms of discrimination.

This was a result of a study which saw thousands of employees share their experiences via an online survey, group and individual listening sessions, and individual written submissions. The report outlined detailed recommendations which Rio Tinto intends to implement to improve the company's prevention and response mechanisms in this area. The report made for difficult reading, but the company should be commended for its courage in releasing the results publicly.

RLAM met the company twice, once as part of a group call with the Chief People Officer (CPO) and once with the Chair. The key takeaways were:

- The review was commissioned due to a pattern of employees not feeling able to speak up.
- Reactions from employees seem positive and there has been a significant increase in people coming forward since the report's publication.
- The executives' bonus plan will be linked to the review.
- At the time of the 2022 AGM, a 5% downward adjustment was applied to the bonus. We felt this was reasonable as the current executive team was not in place at the time of the report's findings and have made strides to address the concerns.
- Another case of sexual assault was reported at a site in Western Australia in 2022. The company could not disclose specific details beyond confirming that the alleged perpetrator was removed from the site immediately and no longer works for Rio Tinto.

Interim progress updates on the implementation of recommendations of the review were shared with us and further updates are expected in the next annual report.

Case study: P&O Ferries

We engaged with the owner of P&O Ferries, DP World, following the public announcement in March 2022 that it was to layoff almost 800 UK-based seafarers.

Employees and unions were not given prior notice or consulted about the layoffs. The incident was covered widely in the press. RLAM challenged them on whether any alternatives were considered and questioned why the decision affected only the UK and Jersey-based employees. We asked whether the company considered the risk of fines or litigation, wider reputational damage, and the potential impact on its freeport status, which gives it certain tax benefits. We also raised potential safety concerns related to the replacement of employees with agency staff, as well as the company's decision to pay the new staff below minimum wage. Given that during the Covid pandemic the company had benefitted from numerous forms of government support and had paid a dividend to DP World's shareholders, we questioned how they could justify their actions.

The day before our engagement meeting, P&O's CEO admitted publicly that they did not consult before the announcement, a practice which could be considered illegal, given that there is a statutory consultation period in place of at least 45 days if a company is planning to make more than 100 employees redundant. We discussed this point on the call with DP World.

As a result of the meeting, non-satisfactory responses to our engagement questions, and no decision reversal in sight, RLAM's global credit team sold their position in DP World. You can read more about this case study on page 72.

Ethnic diversity

During 2022, we expanded our focus on ethnic diversity to include questions in our general governance engagements, rather than targeting a specific group. We also undertook ad hoc engagements to improve disclosure or address specific concerns raised about ethnic diversity.

Case study: Compass plc

A food and hospitality business and employer of nearly half a million people, we spoke to the CPO in March about their ethnic diversity practices. While already leading in this area, we sought to encourage further improvements as the company is a holding in our Sustainable strategies.

As a recruiter of almost 500,000 employees with operations in 45 countries, the company has a rich pool of diversity to pull from. The board recently established its 'people commitments' and identified areas where it could make improvements on diversity – particularly on leadership, teams and diverse talent.

To help gain further insights, Compass collected self-declared data on its workforce, with information fed from its employee engagement surveys across gender, ethnicity, age etc. The data collected included about 80% coverage of its US employees and a portion of its UK workforce. Based on its analysis of its US data, Compass was able to prove that when they had more women in leadership teams, they enjoyed more business success, and also saw proportionately higher levels of engagement from ethnically diverse employees in the US. In the UK, Compass is focusing on socio-economic diversity and plans to look at their recruitment practices. On bias and prejudice issues, the company explains this often starts with ignorance and the company is working to remove preconceived ideas and cognitive bias through education.

We were encouraged by our engagement and see the company as a leader in this area. We encouraged them to disclose more of this detail to investors and stakeholders. To that end, we welcome the company's intention to publish more on their progress, which they did later in 2022.[8]

Case study: Dechra Pharmaceuticals

We initiated this engagement following a press article in which the CEO made controversial comments challenging diversity targets for boards and questioning whether positive discrimination resulted in appointing inferior candidates. The CEO also made a number of claims about corporate governance, which we believe to be unfounded.

We wrote to the Chair expressing concern over the comments and asking for a discussion about the company's approach to diversity given it has stated publicly that diversity and inclusion is a focus for the business. We also wanted to explain our perspective on corporate governance guidelines such as board tenure limits, which we see as guidelines and not strict rules that would require directors to immediately resign when they reach nine years' service on the board.

We were disappointed by the response and abstained on the chair's re-election, given she is new in the role. We sent a follow up letter and invited further discussions on the matter.

8 Compass Group UK & Ireland to bolster opportunities for one million people by 2030 as part of social mobility drive | Compass Group (compass-group.com)

Other ESG engagement highlights

Case study: Go-Ahead Group

Following reports on the mishandling of government subsidies, audit failings and lost AGM votes, RLAM conducted a joint engagement with our equity and fixed income teams. We discussed the factors that led to an accrual of excess subsidies from the Department for Transport (DfT) and the events that delayed the publication of the annual report and accounts. We reflected our concerns on the role of the auditor at the AGM, and voted against the auditors, and the annual report and accounts in March.

We concluded that the company and new management were committed to improving their practices and our intention had been to follow up with the company six months later, but in August the company was acquired by a consortium led by Kinetic Group. We continue to hold bonds in Go-Ahead Group, and there is more information about this engagement and the view from our Sterling Credit team on page 67.

Case study: Amazon

We met Amazon's ESG engagement lead and ESG assistant in early 2022 to discuss the company's climate commitments, employee relations and governance practices. Being one of the largest and most recognisable companies in the world, it's a company we get many client questions about. It is also a company that faces numerous complex ESG challenges, while also having an impressive scale and ability to create positive outcomes from its business and the strategic decisions it makes.

Our engagement focussed on three key issues:

- **Climate reporting**
  The company reiterated its commitment to climate disclosure and confirmed its stance to only resort to carbon offsets as a last resort. The company noted that some parts of its supply chain (e.g., freight and shipping) are harder to decarbonise, and it does not yet have a clear plan to tackle this.
- **Employee relations**
  Amazon continues to push back against unionisation, claiming that unions work against company and employee best interests. The company agreed that they would at least have a conversation with the union if employees voted in favour of one. Employees have since voted to support forming a union at Amazon's JFK8 fulfilment centre in New York.
- **Tax**
  Lastly, we broached the subject of tax transparency and tax disclosure, an issue that has repeatedly been raised in the press. However, Amazon remained firm on not increasing its tax disclosure.

This meeting improved our understanding of Amazon's ESG practices by providing additional insight into the company, including other areas such as living wage and workforce surveillance. During our engagement, we emphasised the importance of clear and transparent disclosure, and how improved disclosure could help them address some of the negative news stories in the media. Several of the topics we discussed formed the basis of shareholder proposals at the AGM in May which requested increased disclosure, many of which RLAM supported (see page 34).

Case study: Steel Dynamics

Steel Dynamics is one of the largest domestic steel producers and metal recyclers in the US with an annual production capacity of roughly 13 million tonnes. The company operates a series of vertically integrated mini mills producing steel alloy for numerous end markets, including construction, automotive, and manufacturing. RLAM's Global Equities Team engaged with the company in April 2022.

Central to the company's business is its circular manufacturing model. The company uses recycled ferrous scrap as its primary input, and via electric-arc steel furnaces, produces steel 88% lower scope 1 emissions per metric ton than the dominant blast furnace method in the United States.

> "The company produces steel with 88% lower scope 1 emissions."

Our discussions focused on:

Climate transition

We are encouraged by Steel Dynamics' commitment to a 2050 carbon neutral target, as announced last year, with incremental targets set for 2030. During our site visit of the Butler Mill, we were able to witness the company's material climate transition opportunity in action.

Circular economy

While visiting the Butler Mill, seeing scrap material converted to virgin metal brought to life the commitment to a circular economy. After a recent announcement of new investment into aluminium, we followed up to better understand the implications of this. Aluminium is high value, and production from primarily recycled inputs clearly aligns with their ethos. The furnaces, however, will be fuelled by natural gas, negatively impacting their scope 1 and 2 emissions. Management have assured us that the equipment will be state of the art to improve efficiencies; and it is clear from our conversations that the environmental risks and rewards of this opportunity were fully considered.

Health & Safety

Given the dangers involved in working in this industry, Health & Safety is an ongoing engagement topic. The ability to engage with management in person was a great step to see previous commitments put into practice. For example, the focus on safety across their sites, the positive working culture and efficiency of operations. A very explicit emphasis on employee safety was apparent throughout our visit.

We hold regular dialogues with Steel Dynamics on both their financial and environmental strategy, but this site visit allowed us to see these initiatives in action first-hand. We remain convinced of their dedication to the circular economy and managing their wider environmental and social impact.

Russia and the war in Ukraine

The events in Ukraine which unfolded at the start of 2022 were distressing. Seemingly hour by hour sanctions were announced, or steps were being taken against companies and individuals with links to the Russian government. International companies with a presence in Russia were quickly halting services and eventually pulling out of the market altogether. Those with operations and employees in Russia were faced with difficult decisions in a rapidly evolving conflict. Our engagement, therefore, could not be planned. It was undertaken either in reaction to the news flow, or in response to a lack of information. Our ask was simple – disclosure. Tell us what steps are being taken and why.

Case study: Financial services firm (no. 1)

We took advantage of a pre-scheduled governance meeting to question the director over an article that had appeared in the press regarding directors of UK companies also sitting on Russian company boards.

No sanctions at the time had been applied to the company, the executives or the owners, but international pressure was growing on any director affiliation with Russian firms. Negative press attention was brought on the company and questions were being asked about the board's judgement and approach to directors that presided over large Russian companies. The director in question ultimately resigned from the Russian company, but noted that the decision had been a difficult one. The wider ethical considerations of stepping down and removing themselves from the board complicated the decision and this had, in their view, been inadequately covered in the press. Deciding to step down from the board was, they acknowledged, ultimately the appropriate step to take.

Case study: Financial services firm (no. 2)

We wrote to this financial services company in early March 2022 asking for more information on Russian exposure, as the information was not readily available. Given the industry, the company was working closely with regulators to implement government sanctions, but also working to ensure orderly markets given the turmoil. Their customers needed assistance with exiting positions in sanctioned companies or hedging risks as needed. The company confirmed that a number of risk committee meetings had taken place with members of the board. The executive committee was meeting almost daily to ensure they could react quickly to the evolving situation. The company's actual exposure to the region was less than 1% and we were comfortable that it was being appropriately managed.

ESG Research

We believe an in-house team is essential for providing effective and relevant expertise to support ESG analysis. The knowledge and experience of the Responsible Investment team supports 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 provide the nuance or context required to ensure ESG analysis adds to the investment process and is not simply a box-ticking exercise.

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, through:

ESG reviews with investment teams

We regularly meet with investment teams to discuss both risks and ESG opportunities, with discussions tailored to each strategy and asset class.

Sustainable investment assessments

We work collaboratively with the Sustainable equity and credit teams to evaluate companies to determine their suitability for our Sustainable range of funds.

Enhance and improve our ESG and climate data

We help our fixed income teams enhance and fill climate data gaps so we can more accurately evaluate climate risk within fixed income portfolios where data coverage is often low or of poor quality.

Bespoke research on ESG and sustainability topics

Responding to investment team requests and our assessment of emerging trends and topics. A few examples are described on the next two pages.

Bespoke Research

During 2022 we initiated a number of new research areas on emerging issues and topics. Our research serves a number of purposes, including helping identify new engagement topics, supporting investors in diving deeper on ESG and sustainability issues, or supporting thought leadership. Some highlights from 2022 are below.

Research in brief: Biodiversity

The World Economic Forum estimates that more than half of the world's economic output ($44tn) is at least moderately or highly dependent on nature.[9] Investors are beginning to explore how this dependency impacts the current and future financial performance of investments. Equally crucial, is understanding the effect our investments have on current and future biodiversity loss. This dual approach is key to mitigating nature-related financial risks, environmental damage and to identify new investment opportunities.

After two weeks of tense negotiations (and four years of slow talks) the fifteenth UN conference of parties Biodiversity summit (COP15) came to a close on 19th December 2022. The summit managed to finalise one of the most significant global biodiversity agreements to date, the Kunming-Montreal Global Biodiversity Framework (GBF).[10] Compared by many to the Paris Agreement on climate change, the GBF includes a plan to commit states to declaring 30% of the Earth's land and sea mass as protected areas for conservation purposes by 2030 (called the "30x30 target"). It also includes agreements for emerging markets financing, targets to mainstream biodiversity in national policy, aims to eliminate or reform environmentally harmful subsidies, and the first private sector target adopted at a COP. It is expected the latter should lead to a rise in biodiversity disclosure requirements in the coming years. The success of the GBF will be dependent on full engagement from governments as well as a detailed framework for monitoring progress.

Biodiversity is a nascent area for the financial sector and our research this year has only scratched the surface of this wide-ranging and dynamic topic. We have found that disclosure and data is inconsistent or not available across companies and sectors, which limits our ability to assess and compare company performance. Initiatives are underway to improve disclosure, most notably the International Sustainability Standards Board (ISSB) and the Taskforce on Nature-related Financial disclosures (TNFD). The ISSB is aiming to make corporate reporting more consistent and comparable, and the TNFD is looking to ask investors to collate and report on nature-based risks and opportunities. Our research in this area will continue and will focus on understanding the regulatory context, improving our data, metrics and tools, and supporting collaborative engagements on biodiversity.

9 https://www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/
10 https://www.cbd.int/doc/c/e6d3/cd1d/daf663719a03902a9b116c34/cop-15-l-25-en.pdf

Case study: Energy from waste (EfW)

We first started looking into this issue when assessing the suitability of a fixed income security for our Sustainable funds. We wanted to understand the environmental benefits and impacts of generating energy from municipal waste. Municipal solid waste represents only 10% of total waste generated in Europe and yet it is one of the most polluting. In the UK, energy from waste (EfW), is the preferred method to deal with 'Residual Waste' (municipal waste which remains after recycling, which is solid, non-hazardous and combustible). It is the process of incinerating and converting household waste into energy. The energy can either be converted within the plant (e.g., as electricity and/ or heat) or it can be converted to a 'transportable' commodity to be used for industrial activity or home heating.

On the face of it, EfW provides a neat solution to two problems – our need to store household waste, and our desire for more sustainable, local and dependable forms of energy. It has the added benefit that unlike solar and wind, it can be produced at any time, providing a constant source of energy.

The downside is EfW technology is relatively inefficient, capturing only a small amount of the energy value of the materials it burns. As a result, it is highly carbon intensive, even relative to fossil fuels. Burning waste also creates high levels of pollutants beyond just CO_2 such as mercury, carbon monoxide, lead, and sulphur dioxides. These pollutants can pose a risk to public health. One interesting finding is that areas with higher rates of incineration have lower rates of recycling and reliance on EfW may delay innovation towards truly renewable solutions.

It is likely that EfW will continue to be one of the only options for dealing with household waste at scale, so the technology is here to stay. We found that most facilities across the UK have similar standards but there are opportunities for more efficient and sustainable processes, such as:

- Adding combined heat and power systems in newer (or refurbished) facilities
- Installing improved air filters to capture and concentrate some of the pollutants
- Implementing carbon capture technology at all existing and future plants
- Using high-tech triage scanners to remove recyclable plastics before incineration.

Improving Our ESG Tools & Data

ESG dashboard

We continue to develop our ESG dashboard, which serves as a central repository for our ESG data, scores, research, proxy voting and engagement activities. This information is stored centrally in our proprietary web-based system and is accessible by our investment teams.

As part of the ESG dashboard, we have developed a proprietary ESG+C (climate) scoring model. Using a variety of internal and external data, we construct company or issuer-level scores – our 'Responsible Investment Assessment' or RIA. During the year we increased the resources available on the dashboard. We've added Climate, Sustainability Accounting Standards Board (SASB), regulatory and other 3rd party data. We also added data on Principal Adverse Impacts (PAIs) to help investment teams meet new EU regulatory requirements. The functionality has also been enhanced to allow the screening and filtering of data based on fundamental company classifications such as sector, industry, market cap and RIA scores, among others.

We increased the data coverage for our proprietary scores as we finalised a bespoke approach to scoring governance for our credit teams. The score is built on the same foundations as our approach to equities but allows us to apply our governance evaluation to private issuers or those with more limited public disclosures. It also allows us to appropriately adjust for asset-class specific factors, such as the type of issuer and the level of security we have over the assets.

Fund ESG analytics

During the year we developed tools to understand and analyse fund level ESG data. Our bespoke tools collect and aggregate data from different sources and create user-friendly visualisations. Our analytics tools allow us to look at key climate metrics at fund level compared with their benchmarks, where we can drill down into more detailed layers of data to understand our biggest carbon emitters, view forward-looking climate metrics, and assess how funds and companies are performing over time.

We have also developed tools to look at our RIA scores at fund level, and to quickly get a snapshot of all engagement activity for a given fund, with the ability to filter and sort by topic, outcome or type of engagement. This gives us information in an accessible format to support better ESG integration, and it is a great tool to support client queries and client and public reporting. We are using these tools to meet our regulatory reporting obligations, as they give us a scalable and flexible way to report on our PAIs at fund level.

Measuring sustainability outcomes

Most ESG data, including the data in our ESG Dashboard and analytics tools, is focused on assessing the impact of ESG issues on company financial performance (i.e. ESG risks and opportunities). However, it is becoming increasingly important to understand sustainability impacts and outcomes – both positive and negative – of company activities in the real world. Regulatory interventions are pushing us in this direction, asking us to report on our negative PAIs, but we also want to show our clients the positive outcomes of our investment decisions. That is why we have been exploring how we can measure 'sustainability outcomes' in a credible and authentic way.

This year we worked closely with our investment teams to develop a framework for evaluating and reporting on sustainability outcomes starting with two funds from our Sustainable range: Global Sustainable Equity and Global Sustainable Credit. Our aim is that these reports will give an independent and objective assessment of the environmental and social outcomes of the companies in these funds. We learned a lot as we developed our framework, and will look to adapt, improve and embed more outcomes-oriented thinking into future ESG research, data and tools.

Voting

Our responsible investment team undertakes voting for all holdings in our equity funds. This covers both RLAM's own funds, and a number managed on behalf of our clients. In 2022 this totalled 3,534 meetings across 56 markets.

All votes are considered significant for the purposes of the EU Shareholder Rights Directive II (SRD II).[11] As such, we publicly disclose the outcome of all our votes, alongside rationales for votes against management in the Responsible Investment section of our website www.rlam.com. Below, we have highlighted certain votes we believe offer further insight into our approach on a variety of issues. Details on our approach to voting, including our voting policies and processes, can be found in found in Further Reading on page 91.

Executive Remuneration

Pay remains one of our major areas of focus. Our goal is to promote best practice globally and push for improvements where we can, while being mindful of the specific circumstances of each company. If managed well, we believe pay has the capacity to positively reinforce the direction a company takes. But if poorly designed or implemented, it can incentivise the wrong behaviour.

11 EU Shareholder Rights Directive II https://www.gov.uk/government/publications/workplace-pension-scheme-shareholder-rights-directive-ii-fact-sheet/shareholder-rights-directive-ii-fact-sheet

During 2022, we voted against pay resolutions at **101** companies in the UK; and abstained at 19.

We write to many of these companies at the time of the vote to express our concerns with remuneration, providing our rationale and offering an opportunity to engage with us further.

*There were 563 UK companies with pay-related votes.

Globally, we voted against pay resolutions at **1,150** companies and abstained at **31**.*

We have also sent letters to some of these companies where we deem our holding sufficiently material or our concerns serious.

*There were 3,023 companies with pay related votes globally.

Liontrust Asset Management

Annual Remuneration Report – AGAINST

The CEO and CFO received salary increases of 58% and 28% respectively during the year without a compelling justification in our view. Executives are eligible to receive uncapped bonuses, and earlier in the year were granted nil-cost options – both elements being increasingly rare to see in the UK. The performance conditions attached to the options were earnings per share (EPS) and relative total shareholder return (TSR) measures. RLAM had previously raised concerns over the unchallenging nature of these targets given the scale of potential rewards on offer. We voted against, and this was only approved by the shareholder vote, with 54% of shareholders voting to approve the plan.

WH Smith

Annual Remuneration Policy – FOR

This year changes to the remuneration policy proposed closer alignment of the CFO's pay with that of the CEO. This is positive from a governance perspective, so the increases in bonus opportunity were acceptable. Other changes included confirmation that pension provisions would align with the workforce from 2023.

Annual Remuneration Report – AGAINST

However, we voted against the 2021 remuneration report. Bonuses are based on a combination of financial and personal objectives. Financial performance was only on-target, but personal objectives were judged at maximum. We were forced to question the outcome given the wider experience of 2021 with redundancies, dividend cancellations and the use of furlough and business rate relief. WH Smith did reduce the bonus outcome by 22% to account for this; but several of their peers who had performed better financially, reduced outcomes between 25 and 40%. We notified the company that, in our view, the discretionary reduction was too conservative.

The resolution passed, but with 46% of votes against. The board acknowledged the results and said the new chair of the remuneration committee will engage with shareholders.

Diversity

We continue to advocate for companies to make improvements in both ethnic and gender diversity on their boards in 2022.

In the UK we voted against or abstained on the re-election of the chairman of the nominating committee at **18** companies on diversity grounds, compared to **38** in 2021.*

Globally, we voted against or abstain on the re-election of directors on diversity **345** times, compared to **155** in 2021.

* In instances where we did not oppose the director re-election, this could be because we were satisfied with disclosure; either because another appointment was imminent, a recent unforeseeable departure, or a detailed plan of action had been presented.

Frasers Group

Elect David Daly – AGAINST

The nominee is chair of the nominating committee, with ultimate responsibility for board level diversity. The company was recently promoted to the FTSE100. The ethnic diversity targets for the FTSE100 under the Parker Review are currently more stretching than for smaller companies but will be the same in 2024. Despite this, we were concerned with the lack of effort and disclosure provided by the company in this regard and decided to vote against this director.

Japanese companies

We have raised our voting expectations at companies in Japan to at least two female board members. This policy change led to 252 votes against or abstain in this market out of 480 companies – a 51% vote against management. We acknowledge this is a high percentage. The Japanese Corporate Governance Code currently stops short of specifying gender diversity targets but mentions that these should be material factors for the board to consider. As such we feel it is important to maintain this position. More can be read on our engagement efforts in this area on page 19.

ESG and Stakeholder Issues

Our approach to shareholder proposals is covered in more detail in our voting policies, but we will endeavour to support them where we can. Our test is whether the topic is deemed material to either the business or key stakeholders, there is flexibility around implementation and whether or not the company is adequately addressing this risk. During 2022 we supported 53% of resolutions globally. The following are some of the higher profile shareholder resolutions or stakeholder focused votes in 2022.

Tesla

Tesla's alternative approach to governance gives some insight into its management and business practices, including on board diversity, employment issues and net zero. There were several notable votes at the last AGM:

Chair of the governance committee – AGAINST

The company failed to implement a shareholder proposal to declassify the board which received majority shareholder support at the previous AGM. Declassifying the board would require directors to stand for election every year, rather than every three years.

Elimination of supermajority voting – FOR

A management proposal to remove this outdated voting standard which needs two-thirds support to pass.

Board diversity (shareholder proposal) – ABSTAIN

While we agreed in principle with the proposal, we noted that implementing it would potentially skew the current board make up towards a particular ethnic group, so we abstained.

Mandatory employee arbitration practices (shareholder proposal) – FOR

We supported this request for a report into the impact of these practices. The company faces several employment-related claims and the approach to employee relations needs to be improved. Mandatory arbitration limits the options available for victims when seeking redress, prevents class-action lawsuits and can shield the true extent of the problem at a company.

Lobbying alignment with Paris (shareholder proposal) – FOR

We supported a request for the company to align its lobbying activities with the objectives of the Paris Agreement.

Sainsbury's plc

Payment of the living wage (shareholder proposal) – ABSTAIN

A coalition of shareholders filed a resolution calling for Sainsbury's to accredit as a Living Wage employer. We decided to abstain. This was after careful consideration and multiple internal discussions. Our decision took into account several factors such as how prescriptive the request was, the current economic environment and Sainsbury's existing position on the Living Wage. In the end, we found the proposal to be too prescriptive. We support the company pursuing living wage accreditation, but believe management is best placed to decide on the timeline most appropriate to the business and its stakeholders.

Amazon.com

Re-election of Jeff Bezos – FOR

Although RLAM would prefer the appointment of an independent non-executive chair of the board, for the first time we supported Bezos's re-appointment given the separation of the CEO and chair roles, and appointment of a senior independent director.

Board directors – AGAINST

We opposed the re-election of all members of Amazon's leadership, development, and compensation committee, because of significant scrutiny and controversy in recent years related to Amazon's human capital management practices, particularly in regard to workplace conditions and worker safety.

Aligning climate goals with employee retirement options (shareholder proposal) – AGAINST

This proposal was filed at several US companies in 2022. While we agree with the sentiment of aligning employee pensions with Amazon's stated climate goals, we are satisfied with Amazon's current approach. Employees can direct their pensions to many available options, including those aligned with climate ambitions. We believe this decision should be up to the individual rather than mandated by the employer.

We supported several other shareholder proposals at Amazon, further information on this and other voting activity can be found in the Responsible Investment section of www.rlam.com.

Apple Inc

Executive compensation AGAINST

This year, the board asked shareholders to approve a grant close to $100m to the CEO in equity awards with very limited performance conditions. Apple has a history of granting exceptionally high awards to executives and this year was no exception. However, we could not support the award due to both the scale and lack of sufficient performance conditions.

App removals (shareholder proposal) – FOR

We supported the request for increased disclosure from the company on the frequency and nature of app removal requests from the Chinese government and the associated impact on freedom of expression.

Effectiveness of supply chain policies on forced labour (shareholder proposal) – FOR

The company appears to have strong policies around managing their supply chain; however, given the significant reputational risks posed by their global supply chain, we are supportive of this request for increased disclosure.

Climate Voting

Climate issues are gaining much more prominence on company ballots. There is a growing number of shareholder proposals on climate, and we are increasingly seeing management teams filing proposals asking for approval for climate transition plans. Plans became mandatory for certain companies and investors in the UK in 2022 and we commend those who are voluntarily putting these to an early shareholder vote. In response to the increased focus on climate and the greater complexity of climate-related proposals, we refined our approach. We view voting and engagement as inextricably linked, with voting serving as both a starting point and an escalation technique to complement our engagement on climate change matters.

How we use abstain votes

One element where our voting approach sometimes differs from other asset managers, is the use of abstentions. Climate issues are rarely black and white, and we believe the option to abstain is an often-overlooked element of stewardship. We see the decision to abstain as an active one. It enables us to communicate concerns or views to management without either supporting the status quo, or wholly disregarding any progress made.

This approach can, and has, led to further engagement with companies on areas where companies are making progress, but where improvements are still required. We often write to companies in our actively managed funds when we abstain to explain the reason for our vote. Often companies are more receptive to engaging with us after we abstain, recognising our concern and offering a dialogue on how the company can improve. This option also leaves us with the ability to escalate our vote if necessary in future years. A breakdown of our climate votes can be found on page 40.

> “Climate issues are rarely black and white, and we believe the option to abstain is an often-overlooked element of stewardship.”

How we analyse climate votes

We assess companies against 12 indicators developed by our governance and climate experts. For each climate resolution we follow a decision tree built around these indicators. This allows us to assess each company in a detailed, fair and consistent way. We then apply our final judgement based on discussions with our investment teams, climate experts and the company.

Some of the issues we consider are:

- Targets aligned with the Paris Agreement
- Approach to a just transition
- Demonstrating climate action now.

Climate management resolutions

SSE plc

Net zero transition report – FOR

This was put to shareholders in July, updating us on activities against their previously agreed Transition Plan. We view SSE as a clear industry leader who passes our assessment for a credible strategy. Their ambitious targets are backed with clear and detailed disclosure, along with a strong track record of delivering against these. While we are still engaging to gain further clarification on the role of offsets in the plan, we believe this deserved our support.

Shell plc

Energy Transition Strategy – ABSTAIN

This was the second year that Shell requested shareholders to vote on its energy transition strategy. Considerable progress has been made since the first vote in 2021. However, we could not fully support the 2022 proposal because we do not think the scope 3 emissions and capital expenditure targets are aligned to the Paris Agreement. Our decision to abstain was made in this context. We believe the company is on the right path and has shown a willingness to make continual improvements but there is further work to be done.

Standard Chartered plc

Endorsement of pathway to net zero – AGAINST

In May we opposed the climate pathway report put forward by the company. Following our analysis, we believe that their activities and targets are contrary to the International Energy Agency's (IEA) net zero scenario by allowing for financing of new oil and gas fields. The IEA has clearly stated that no new oil and gas should be developed if we are to meet the goals of the Paris Agreement. Additionally, we have concerns over Standard Chartered's approach to coal, which uses regulatory gaps to allow for financing of some of the biggest coal companies for the next few years.

Climate shareholder resolutions

We assess these largely in the same way as management resolutions. We are looking at whether the request is in the best long-term interest of the company, its shareholders and other stakeholders. Additional factors we consider when voting on shareholder resolutions are:

- Proponent. Who are they and what are they seeking to achieve?
- Strategy. Does it complement, encourage or frustrate the current efforts of the company?
- Requirements. Is it asking for better disclosure, a change in policy or different strategy?
- Impact. Is it so onerous as to outweigh any potential benefits?

BP plc

Advisory vote on climate transition plan (Management proposal) – ABSTAIN

Two competing resolutions were put forward at the AGM, one led by management and the other by a Non-Government Organisation (NGO). Following this, we decided to abstain on the company's plan, acknowledging their commitment but taking issue with the over-reliance on divestment and the absence of emissions from traded products within the plan.

Reporting and reducing greenhouse gas emissions (Shareholder proposal) – AGAINST

This shareholder proposal requested that BP publish a report including emission reduction targets aligned with the Paris Agreement. We agreed with the argument put forward, but adoption of this would have forced the company to go back to the drawing board. We see greater value in engaging with BP to improve their current plan.

Exxon Mobil Corp

GHG targets and alignment with Paris (Shareholder proposal) – FOR

This proposal requested publication of emission reduction targets aligned with the Paris Agreement. The company's current transition plan is widely considered to be mis-aligned with Paris. We agreed with the argument put forward by the proponent and supported the call for new, more stretching, targets.

Audited report on net zero emissions 2050 scenario analysis (Shareholder proposal) – FOR

The request was that the company's report be externally audited. In our view the current scenario analysis from the company lacks detail and we question the assumptions they are using (future carbon pricing and oil demand). An external audit would give reassurance of the robustness of the plan.

Sumitomo Mitsui Financial Group

Fossil Fuel Financing (Shareholder proposal) – AGAINST

The shareholder proposal requested a change to the company's governing documents, effectively preventing the financing of fossil fuels and any associated infrastructure. While we were partly sympathetic to the request, we believe Sumitomo has already shown a commitment to climate action and have a net zero commitment for their financed emissions. We ask that companies take the lead on their strategic response to climate change, and felt that the proposal directing a change to legal documentation was overly prescriptive, and potentially damaging for the company.

Voting Letters

We take our voting rights very seriously and as described above, we see voting as both a starting point and escalation tool to support ongoing company engagement. For this reason, we make a point of writing to companies in many of our actively managed funds to disclose our final vote and explain our voting rationale. This year we sent 133 voting letters to companies. These letters are a great tool for inviting further dialogue with companies. Many companies write back to us after receiving our letter or seek further input from us later in the year, particularly around remuneration consultations. This year, the CEO of BP wrote to us thanking us for our voting letter regarding our votes on climate issues at the 2022 AGM. He acknowledged that voting on these challenging issues can be difficult and thanked us for our nuanced approach.

Climate voting policy updates

Our climate analysis will remain largely unchanged for the next voting season as we continue to incorporate our 12-step assessment into our voting activities. However, we will be including an expanded list of voting options for additional escalation:

1. Climate Transition Plans/Reports
   a. Where there is a new plan or report vote, this shall be analysed according to our 12 indicators
   b. Where there is a consecutive plan or report vote, we shall assess any progress or developments made during the intervening period and escalate our vote accordingly

2. Board Directors
   a. If very serious concerns are raised around the company's behaviour, accountability, or lack of stakeholder engagement, we reserve the right to vote against the re-election of the director with ultimate oversight responsibility
   b. If we have persistent concerns with climate reporting over a number of years, in the third year we may escalate and vote against the re-election of accountable director(s)

3. Report & Accounts

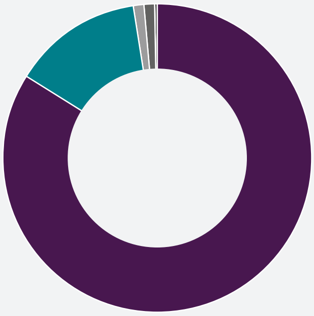
   Should we have significant concerns we may choose to abstain or vote against the Report & Accounts if:

   a. There is poor or inadequate climate-related disclosure
   b. There is no climate vote on the AGM agenda where we can reflect our views
   c. There is no board director against whom we feel it appropriate to reflect our concerns

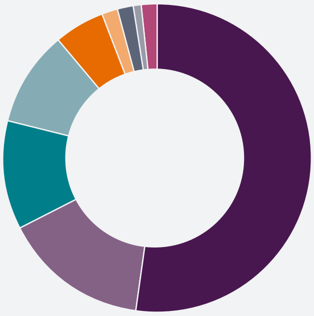
2022 voting activity

Total number of meetings: 3,534
Total number of resolutions: 43,348

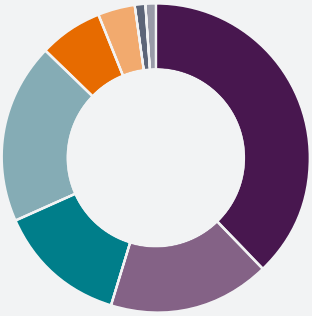
Summary
Proportion of voting outcomes for all resolutions in 2022



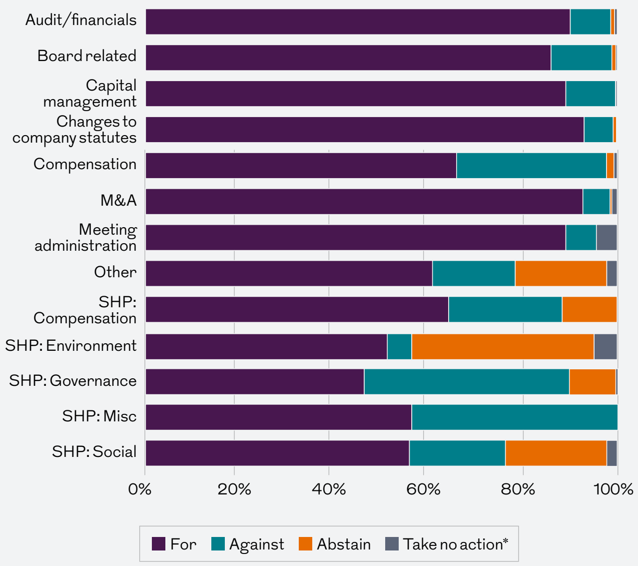
Votes by category



Meetings by geographical region



Total voting record+

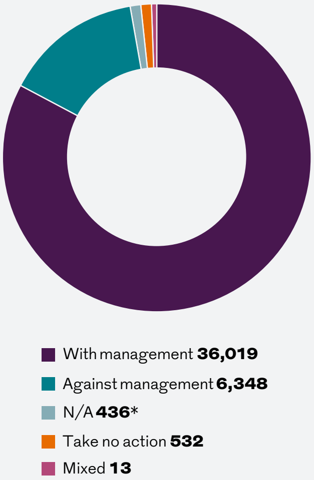


	For	Against	Abstain	Take no action+
Audit/financials	5,995	546	11	56
Board related	19,475	2,903	154	167
Capital management	3,823	423	6	41
Changes to company statutes	2,121	123	8	37
Compensation	3,205	1,649	35	62
M&A	307	13	3	8
Meeting administration	637	35	0	46
Other	488	57	74	7
SHP: Compensation	27	8	8	1
SHP: Environment	64	5	45	6
SHP: Governance	160	146	31	2
SHP: Misc	7	5	0	0
SHP: Social	130	41	50	2

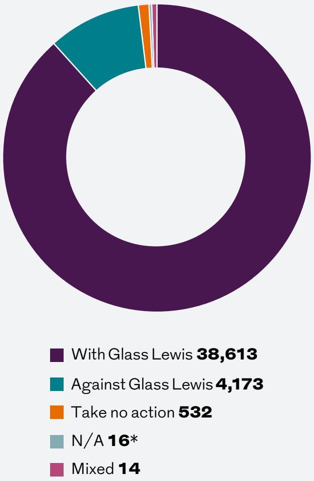
+ Take no action – we endeavour to vote at all meetings other than in markets where voting would result in shareblocking. An additional 95 votes were recorded in other categories, such as mixed votes or 1 year votes on executive compensation in the US.
* Mixed votes included one meeting where some funds were voted via physical proxy card instead of the voting platform, and one meeting where some client accounts were voted differently as per client's instructions. 1 Year votes were issued on proposals asking for preferred frequency of shareholder votes on executive compensation in the US.
Source: RLAM, for 12 months ending 31 December 2022, data accurate as of 30 January 2023.

2022 voting activity

Votes with or against company management

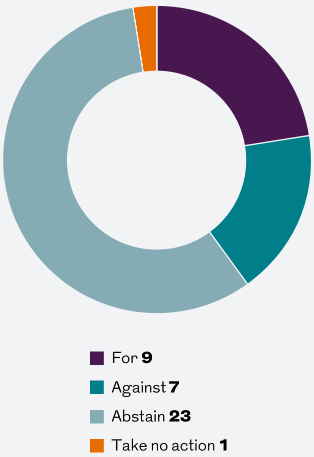


Votes with or against Glass Lewis recommendation

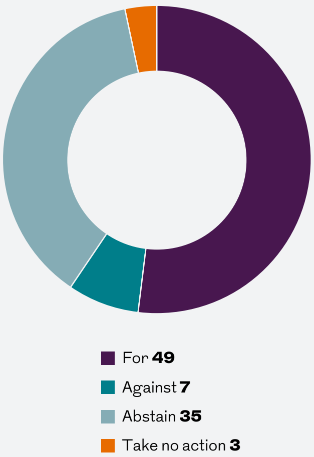


Votes with or against RLAM policy

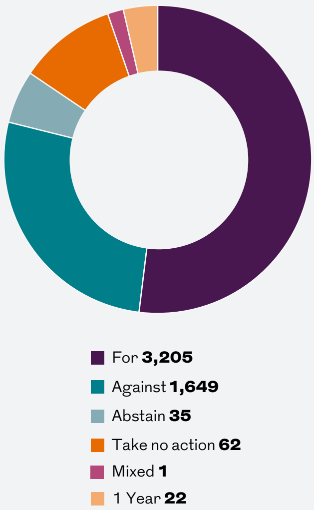
Management climate proposals



Shareholder climate proposals



Remuneration votes



*Proposals where there was no management or Glass Lewis recommendation.
** Votes with/against policy refer to votes where RLAM took a decision that is different to our custom rules-driven voting template, which is systematically applied by our voting service provider. This is the result of our case-by-case assessment of each vote.
Source: RLAM, for 12 months ended 31 December 2022, data accurate as of 30 January 2023.

Bondholder Votes

In 2022, there were 30 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.

Dignity plc

As responsible lenders, we will always seek to work constructively with any borrowers facing financial difficulties; seeking to balance the needs of stakeholders yet preserving the economics of our clients' investment. Importantly, our emphasis on secured and covenanted lending provides us with an earlier opportunity to negotiate agreements.

Although such interactions were more prevalent through the pandemic, early in 2022 Dignity sought temporary covenant waivers. While many companies saw declines in business at the start of the pandemic, the impact on Dignity is just starting to be felt, with deaths likely to be lower over the next few years.

Through discussions with management, bondholders were able to agree a 12-month amendment to their key interest cover covenant, in return for additional cash being injected into the business to make up for any shortfall. This gives management greater certainty that they will not breach this covenant and the control afforded by our senior secured position means we are appropriately protected, through the deployment of additional funds, if the business does start to deteriorate.

Later in 2022 we worked with Dignity on a wider-ranging change to their bond documentation. As well as modernising several covenants, we also gave the issuer the ability to sell certain assets, on the basis that proceeds used to pay down debt at a premium to market pricing.

Proxy Voting Platform and Research

We use the Glass Lewis proxy voting platform to execute our votes and provide us with customised voting recommendations and research. 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.

Early in the year we had conversations around the most appropriate approach to Russia and how we could ensure that meetings were not voted in contravention of international sanctions. Other issues raised have been research delays for merger and acquisition (M&A) meetings during voting season, several errors RLAM identified in Glass Lewis research reports, and issues surrounding the voting setup process of new funds.

We also improved our service from Glass Lewis in sending voting engagement letters to companies. RLAM is now directly copied into these emails rather than receiving a copy, enabling better communication with the companies in question.

No votes were submitted incorrectly during 2022 but there were a number of vote rejections. These were all investigated, and we were satisfied with the rationales for these. The following are some examples of vote rejections during the year.

- **Power of attorney rejections**
  A number of markets, including certain Scandinavian, Eastern European and South American markets, require powers of attorney to be in place to be eligible to vote. The required paperwork can be either specific to the company or the market. Due to the comparatively small size of these holdings, not all paperwork can be completed, and some votes are rejected. Examples include Powszechny Zaklad, Volvo and Indutrade.
- **Late vote rejections**
  For reasons outside our control, votes can sometimes be submitted after the deadline. Reasons for this include the late release of ballots from the custodians, the late release of research or a change in the meeting agenda. Examples this year include Far East Horizon and Shriram Transport Finance.
- **British American Tobacco**
  The trading of shares around the meeting date can also lead to rejected votes. Shares in this company are held across multiple funds, but one of these first bought shares on the day of the vote deadline. Due to trade settlement dates and processing requirements, the voting position only came through five days later. While this was before the meeting date, it was too late to be processed successfully for the one fund and was rejected. The rest of RLAM's holding was voted successfully.
- **Ryanair**
  Following Brexit, restrictions were implemented by the company limiting voting rights to EU nationals only. Proof of this status is required to be submitted at the time of voting. Because we are domiciled in the UK, the votes submitted by RLAM were rejected.

Advocacy and Public Policy

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

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. In many cases, where we are unable to respond directly, we will engage with our industry associations, such as the Investment Association (IA) where we sit on their Stewardship and Sustainability Committee and the Climate Change Working Group.

We commit our time and expertise as advisors to trade associations or bodies that advocate responsible investing and good stewardship practices, including:

- The Principles for Responsible Investment (PRI)
- UK's Investment Association (IA)
- Climate Financial Risk Forum (CFRF)
- Institutional Investors Group for Climate Change (IIGCC)
- UK Local Government Pension Scheme Responsible Investment Advisory Committee (RIAG)
- Disclosures and Labelling Advisory Committee (DLAG) of the UK's Financial Conduct Authority (FCA)
- Vote Reporting Group convened by the FCA.

Climate Change Advocacy

We are committed to being a responsible steward of our client's capital and recognise that unmitigated climate risks present a systemic threat to financial stability over the coming years. RLAM was selected to be part of the Climate Financial Risk Forum (CFRF), an industry forum chaired by the FCA and the Prudential Regulation Authority (PRA). We are an active part of the transition to net zero working group.

This year we have responded to the following government consultations directly, or through the IA or IIGCC:

- Glasgow Financial Alliance for Net Zero (GFANZ) on its Guidance on Credible Net Zero Transition Plans for the financial industry
- Her Majesty's Treasury Transition Plan Taskforce (TPT) call for evidence on a sector-neutral framework for private sector transition plans
- Department for Business, Energy, and Industrial Strategy (BEIS) Net Zero Independent Review: Call for evidence
- The Securities and Exchange Commission (SEC) proposed rules to enhance and standardise climate-related disclosures for investors.

We have signed the 2022 Global Investor Statement from the Investor Agenda which called for governments to focus their attention on specific policies needed to enable large scale zero-emissions, climate-resilient investments.

We are active in shaping the investor tools and expectations for good climate stewardship; for example, providing feedback to:

- CA100+ Strategy renewal for the period 2023-2030
- CA100+ Net Zero Company Benchmark
- IIGCC Offsetting principles for investors and their portfolio companies

- IIGC Net Zero Stewardship Toolkit
- IIGC and Transition Pathway Initiative (TPI) framework of pilot indicators to assess banks on the transition to net zero.

Just Transition

We continued our active policy advocacy for a resilient and just transition to a low carbon economy. In all consultations related to climate we emphasised the imperative to include just transition in climate transition plans. Furthermore, specific to just transition we took part of the following advocacy activities:

- We were invited to contribute to an International Labour Organisation (ILO) and London School of Economics (LSE) Grantham Research Institute Guide on Just Transition for financial institutions, launched at COP27
- As part of the Financing the Just Transition Alliance (FTJA) which brings together banks, investors and other stakeholders in the UK, we contributed to their report Making Transition Plans Just, showing how to include just transition in financial institutions climate plans
- We signed the Statement of Investor Expectations for Job Standards and Community Impacts in the just transition from Interfaith Centre on Corporate Responsibility (ICCR), to ensure a just transition that supports a racially and economically equitable, decarbonised economy by prioritising 'high-road' jobs, respect for human rights, positive community impacts, and the remediation of harms
- We took part in a just transition Workshop Series from CA100+ North America organisation CERES and provided feedback to company research templates and text for shareholder resolutions
- We joined roundtables with European and Australian investors on just transition, respectively led by Finance for tomorrow by Paris Europlace and the Australian Council of Superannuation Investors limited (ACSI).

Other Collaborations & Advocacy Activities

- **Letter to the SEC re Amazon:** We supported Pensions & Investment Research Consultants' (PIRC) letter to the SEC to allow the shareholder proposal to be filed with Amazon. The shareholder proposal requested Amazon issue a tax transparency report aligned with the guidelines set out in the Global Reporting Initiative's Tax Standard.
- **Letter to the SEC on cybersecurity:** We wrote to the SEC, alongside other investors, to show our support of the Proposed Rule S7-09-22 on public company cybersecurity.[12] Within the letter we shared our views on what constitutes useful cybersecurity disclosures and our investor expectations. For further information in our cybersecurity engagement, please see page 18.
- **CCLA[13] Corporate Health Benchmark:** To further our work on the health engagement theme, particularly around supporting healthy employees, we supported the global investor statement on workplace mental health which seeks to use the findings of the CCLA Corporate Health Benchmarks to encourage companies to take action on the mental health of their employees.
- **FAIRR[14] engagement on biodiversity:** We joined FAIRR, a collaborative investor network that raises awareness of the risks and opportunities brought about by intensive livestock production. Specifically, we joined their Biodiversity Loss from Waste and Pollution engagement programme.

12 The Securities and Exchange Commission (SEC) is proposing rules to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and cybersecurity incident reporting by public companies that are subject to the reporting requirements of the Securities Exchange Act of 1934. https://www.sec.gov/rules/proposed/2022/33-11038.pdf

13 Churches, Charities and Local Authorities Investment Management Ltd – www.ccla.co.uk

14 Farm Animal Investment Risk and Return or FAIRR Initiative

ESG Integration

Piers Hillier
Chief Investment Officer

> "Engagement itself isn't limited to our Responsible Investment team but something all our investment teams are involved in."

Introduction

Integrating ESG factors into our investment process is a cornerstone activity for our investment teams. We believe it is one that plays to our strengths: not only do we have a strong and established Responsible Investment team, but we also have a collaborative culture at RLAM that is essential for ESG integration to be successful.

This can feel somewhat obvious but isn't always. You can build as much expertise as you want, but if teams are not using that expertise and adding to their own expertise and appreciation of these factors, then progress will be slow or non-existent.

What does ESG integration mean in practice? For us, it means that material factors are assessed and understood, and are reflected in our investment decisions. To that end we've continued to build out our ESG dashboard and analytics tools, giving decision makers access to consolidated information from our Responsible Investment team and third-party ESG research providers.

Historically the mainstay of stewardship activity has been voting – using our influence as a major shareholder to vote on company issues. In some senses, that historic emphasis on voting is logical. Votes can be counted – for, against, abstentions – and weighed against the prior year.

Today it is so much more than this, with engagement a much greater part of the process, and one where all teams are involved. Engagement is messy – it can't be counted in the same way: some of our engagement is quite straightforward and may just involve sending a letter. At other times it will mean a series of meetings and other contacts, perhaps alongside other investors. But the most interesting element is that engagement itself isn't limited to our Responsible Investment team but something all our investment teams are involved in – as can be seen in the examples of Go-Ahead Group (page 24) and Steel Dynamics (page 25).

Engagement and ESG integration cannot be reduced to simple numbers or formulas, and transparency in how we engage and the results we can achieve is vital. The following section will give you examples of ESG integration right across our range of strategies.

Mike Fox
Head of Sustainable Investment

> It is an opportunity for more sophisticated investment processes to prove themselves.

Sustainable Funds

Sustainable equities

The last year has been one of continued and dynamic change within the area of sustainable investing. Although some of the earliest funds in this area have been around for well over 20 years (our own Sustainable Leaders fund was launched in 1990) it is an area that is attracting more attention now than at any other time. This is a consequence of several factors coming together at once: a desire to invest in a positive way by more investors, the need for more capital to go into areas supporting the transition to a more sustainable future, and regulation wishing to ensure investors are clear about what they are investing in. At the same time, 2022 was a year when low carbon strategies, such as sustainable ones, have typically underperformed their benchmarks, due to the impact of the war in Ukraine on oil and gas prices.

More data…and how to use it

At a more granular level there has been a huge amount of change too. An explosion of ESG data in the corporate community, provided at the request of investors and part of a desire to prove sustainable credentials, has led to both opportunities and confusion. Investors can do much more granular work when assessing potential investment opportunities than even a year ago, which should allow better decisions on how to allocate capital. Equally though, more data has created a challenge to understand what good and bad data is, what is meaningful and what isn't. This can be seen in the wide range of opinions and views that can be found about the sustainability of any given company. These challenges in ESG data are no different from those in traditional financial data. Different interpretations and conclusions are to be expected, and it is an opportunity for more sophisticated investment processes to prove themselves.

We have spent much of the year discussing such topics with our external Advisory Committee. This committee, consisting of individuals from the academic, corporate, investment and client worlds is a forum to understand how we should respond to this dynamically changing environment for sustainable investing. The Committee has held discussions on ESG metrics within remuneration, the potential to adopt net zero targets, and whether and how net zero is aligned with our existing process to assess both environmental and social sustainability in a holistic way.

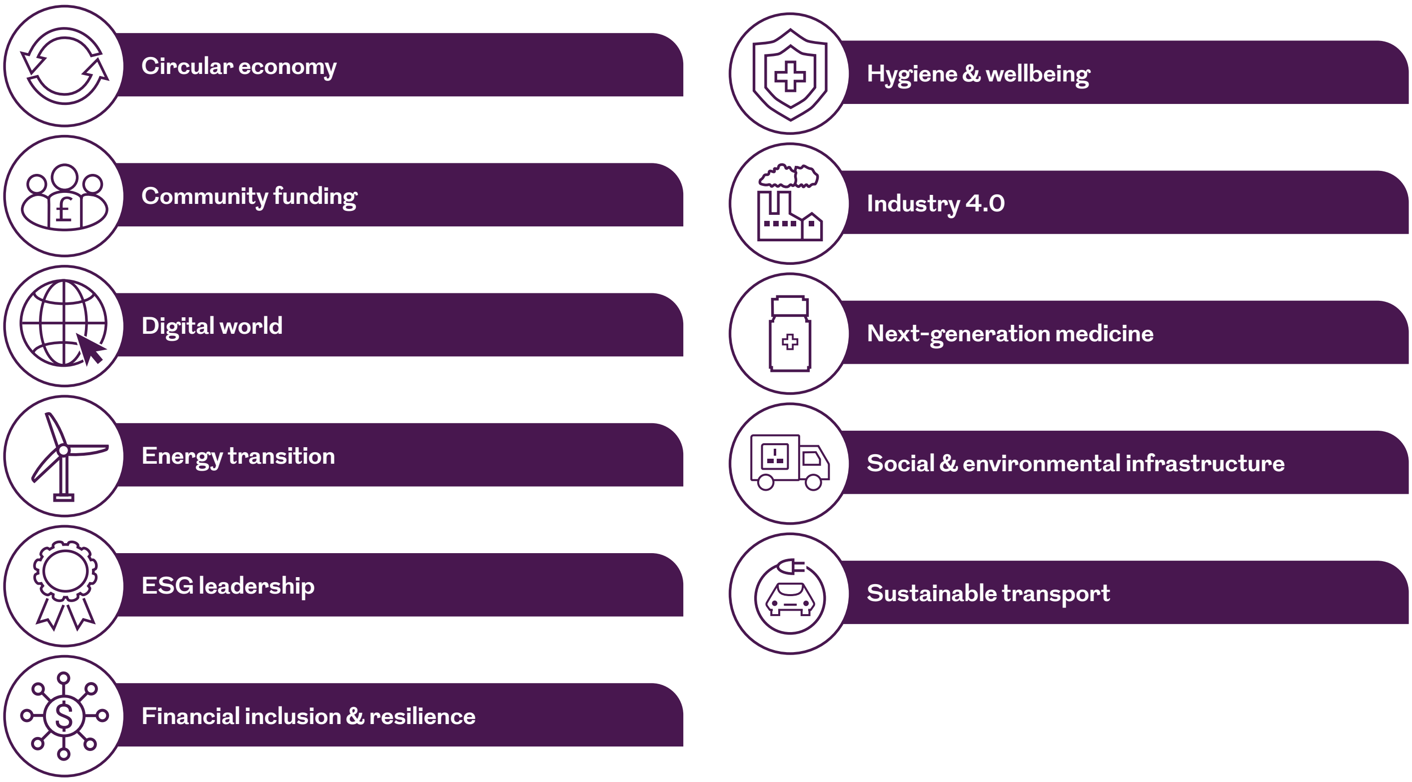
The future of sustainable investing

Looking forward, we expect our investment research process to become more sophisticated and aligned to the external requirements that are being set by regulators and standard setters for sustainable funds. Equally though, we will ensure it best reflects the commitments made to our investors in how we invest their money. While meeting these various standards and expectations are challenging, we are optimistic there is a way through. Greater definition and clarity on what is sustainable investing can accommodate the already diverse range of approaches available.

We also expect the direction of travel towards sustainable investing to reassert itself after a year when crises needed some of the less attractive sectors for sustainable funds — notably oil and gas, and armaments — to deal with the consequences of the war in Ukraine. When we speak to the companies we invest in, we often hear that sustainability is still a power driver of their prospects. It provides growth opportunities, the ability to attract purpose driven talent, and reduce costs through better use of resources.

It will be interesting to see how much the events of 2022, both big picture and granular, will change the future path of sustainable investing. It does, however, seem we are still in the early stages of this style of investing compared to more traditional approaches, with all the opportunities and challenges that brings.

Figure 1: Sustainable equities themes



Our approach in practice

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.

The following are examples of companies we owned during the year and why they are worth holding in the Sustainable Funds.

Thermo Fisher Scientific

The company helps its customers accelerate scientific research, solve analytical challenges, improve patient diagnosis and therapy, deliver medicines, and increase productivity.

It achieves this through the provision of equipment, software and services to pharmaceutical and biotech companies, hospitals, labs, universities, and government agencies. During Covid the company was a key player in advancing research, testing, and developing vaccines to combat the virus. In 2021 over 11 billion diagnostic tests were enabled and over one million patients a day received medicines it helped manufacture.

In addition to this the company is actively pursuing ways to make its business more environmentally sustainable, designing greener product ranges by minimising the use of hazardous chemicals, waste, and raw materials. Over 60 of its sites reached 100% renewable energy usage by the end of 2021, and 24 are certified as zero-waste.

In our view, both its end products and services, and its operations, contribute to a cleaner and healthier society.

MercadoLibre

MercadoLibre's technology platform provides an ecosystem of integrated solutions, including e-commerce, logistics, payment tools and other services.

In Latin America's less developed infrastructure, geographic dispersal and the growing economy mean that the company has great potential to improve outcomes for the 625 million consumers who live there. In 2021 alone MercadoLibre's e-commerce platform had nine million sellers, 67 million buyers, one billion products sold and was the main source of income for close to one million families. It is advancing sustainability through its expanding range of sustainable products and shifting operations towards renewable energy sources, sustainable packaging, electric vehicles, and waste recovery.

This business model fosters entrepreneurship, expands the reach of small businesses, offers greater choice and access to goods; as well as enabling safer and cheaper electronic payments. Helping to make society safer and more inclusive.

Intuit

Intuit is a leading provider of business and financial management solutions, focusing on small businesses, self-employed individuals, consumers, and accounting professionals.

Its products and platforms are designed to help customers manage their finances, pay off debts and file their taxes with ease and confidence. Particularly for customers who run small businesses, Intuit's offerings help them get paid faster by customers, pay their employees, access capital, and ensure their books are correct. Through the acquisition of Credit Karma in December 2020, Intuit extended its offerings to help consumers find the right financial products by matching them with personalised offers on credit cards, loans, and insurance. The acquisition of Mailchimp in September 2021 enables small businesses and self-employed individuals attract and reach a greater customer base through email marketing software. All these offerings tie into Intuit's mission to power prosperity around the world, supported by its 2025 ambitions to double the household savings rate of its customers, and improve the success rate of small businesses on its platform by 10% over the national average.

Intuit contributes to a more inclusive society through its services and product offering.

Rentokil Initial

Rentokil Initial is a world leader in commercial pest control and hygiene services.

According to the WHO, every year there are more than 700,000 deaths from diseases caused by parasites, viruses, and bacteria. Pest control allows for the mitigation of harmful attacks on crops and people, preventing and controlling the spread of diseases from product infestation by rodents, birds, and insects. Hygiene services provided by the company help prevent and control the development and the transmission of disease. Rentokil Initial also increasingly focuses on innovation around non-toxic and sustainable solutions and is committed to reach net zero from its operations by the end of 2040.

Rentokil Initial's products and services protect people from the dangers of pest-borne disease and reduce the risks of poor hygiene and airborne pollution, enhancing lives, and contributing to a healthier society.

Engagement with East Japan Railway Company

The company provides affordable rail travel, delivering a critical connection between rural areas and cities for those who cannot, or do not wish, to travel by other means. Already a more environmentally friendly option than road travel, the company has also taken significant steps in its operations to decarbonise.

We screened the company as part of our approval process for inclusion in our sustainable fund range. We concluded that the company provides a clear benefit to society through the service it provides communities, alongside efforts to address its carbon footprint. However, our research also found a concerning history of employee fatalities which was slightly worse relative to its peers. Following internal debate between the Sustainable and Responsible Investment Teams, the company was conditionally approved for inclusion in the sustainable funds range, subject to satisfactory engagement on employee health and safety.

On engagement the company provided us with further details on:

- the causes of the employee fatalities
- what it has done in response to each fatality
- a plan to reduce fatalities to zero
- confirmation that executive remuneration is linked to safety performance.

The company also outlined actions taken to improve employee safety in its 2022 integrated report, released after our conversations. There were no employee fatalities in fiscal year 2021, which we hope is the start of an improved employee health & safety trend. We were satisfied with the responses we received and the seriousness with which the company is treating the issue.

The engagement was considered successful and met our pre-defined aims. As such the company remained approved for inclusion in the funds.

Shalin Shah
Senior Fund Manager

> "Our sustainable credit proposition provides access to critical sectors that most investors can't access via equity markets."

Sustainable Credit

While the macro environment has been highly uncertain, the factors driving the sustainability agenda have never been clearer. The pandemic and its aftermath have accelerated the need for sustainability across governments, businesses, and consumers. We continue to believe fixed income markets offer opportunities for investors seeking socially positive investments without compromising investment returns.

Our bottom-up sustainable research process means that for every company we lend to, we first 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. Importantly, our sustainable credit proposition provides access to critical sectors that most investors can't access via equity markets, such as social housing, and also includes bonds that do not fall into mainstream indices or benchmarks and/or are unrated by ratings agencies. This means we can support under-researched socially beneficial organisations, whilst targeting superior risk-adjusted returns for our clients.

Sustainable credit themes:

- Digital world
- ESG leadership
- Social & environmental infrastructure
- Community funding
- Knowledge & Learning
- Financial inclusion & resilience
- Circular economy & environmental efficiency
- Social housing
- Sustainable transport
- Hygiene & wellbeing
- Next-generation medicine
- Energy Transition

Below we highlight examples of investments we hold in our Sustainable Credit funds.

Anglian Water

In 2021, as part of wider changes to its capital structure, Anglian Water (Anglian) issued its first sustainability-linked bond, which focuses on achieving specific sustainability targets, rather than earmarking funds for environmental projects. Anglian's sustainability-linked bond clearly set out ESG targets for the company, and if those targets are not met, results in an increase in the bond's coupon. In this case, targets were based on Anglian's net zero commitments, with the company needing to reduce operational and capital carbon emissions or face up to 25bps increase in its coupon. Anglian was the world's first utility company to link its carbon targets specifically to a bond, enabling it to raise funds at a more competitive rate. We didn't participate in the initial bond issuance because we felt it was expensive, and we could get access to Anglian's environmental profile through its non-green operating company bonds. However, we took advantage of the bond sell-off during market weakness in 2022 and added it to our Sustainable credit funds.

The International Finance Facility for Immunisation (IFFIm)

IFFIm is a registered charity whose purpose is to accelerate the availability of funds granted by national governments to Gavi, the Vaccine Alliance – therefore playing a critical role in helping Gavi to achieve its mission to save children's lives and protect health in lower-income countries through vaccines. From 2000-2020, Gavi vaccinated more than 900 million children – preventing over 16 million deaths among children in lower-income countries.

In terms of economic impact, it is estimated the vaccination programmes help local economies save on healthcare costs, lost wages, and lost productivity. IFFIm is funded by pledges from highly rated governments, which the charity then borrows against to bring forward its vaccine spending. IFFIm is an excellent example of an investment area only accessible to fixed income investors (as a charity) capable of delivering a financial return alongside highly important social benefits.

Housing 21

Housing 21 is a housing association and a leading provider of retirement housing and care services for elderly people. At first glance, the company appears to have some challenging environmental and governance characteristics – including high carbon emissions (around 5–10 times higher than its peers) and a historically low governance rating from the social housing regulator – that could mark it suitable for exclusion from portfolios. However, through performing our own in-house analysis, we found that its high emissions are derived from communal areas for elderly tenants, and the company is comfortably ahead of its peers in the transition away from fossil fuel sources of heating (you can read more about this on page 65, Sterling Credit section in ESG Integration). In terms of governance, our engagement was followed by several improvements that resulted in its governance score being upgraded.

NatWest

Despite having acquired a poor reputation in the aftermath of the global financial crisis, our research showed NatWest had undergone a significant transformation in recent years, with steps taken to address past controversies as well as a new management and board focused on improving the culture throughout the bank.

As a result, NatWest is now primarily a UK-focused retail and commercial lender, with a strong position in both mortgages and lending to Small- and Medium-sized Enterprises (SMEs) relative to other major UK banking peers. Combined with lower investment banking revenues, NatWest's business is now arguably more geared towards supporting the real economy. NatWest also has notable climate credentials – having introduced initiatives to transition its business and financing activities to a net zero economy. One example is the bank's expectation for conventional oil and gas clients to have credible transition plans in place.

James Clarke
Senior Fund Manager

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.**
  We believe 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 2) and collaborate with the Responsible Investment team. We use shared ESG data providers, review thematic ESG research to support our stock-specific expertise, and participate in regular independent Responsible Investment portfolio reviews focused on targeting both individual company risks and wider societal risks. We also work closely with the Responsible Investment team on voting and engagement to support our client propositions.

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 (Figure 3).

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.

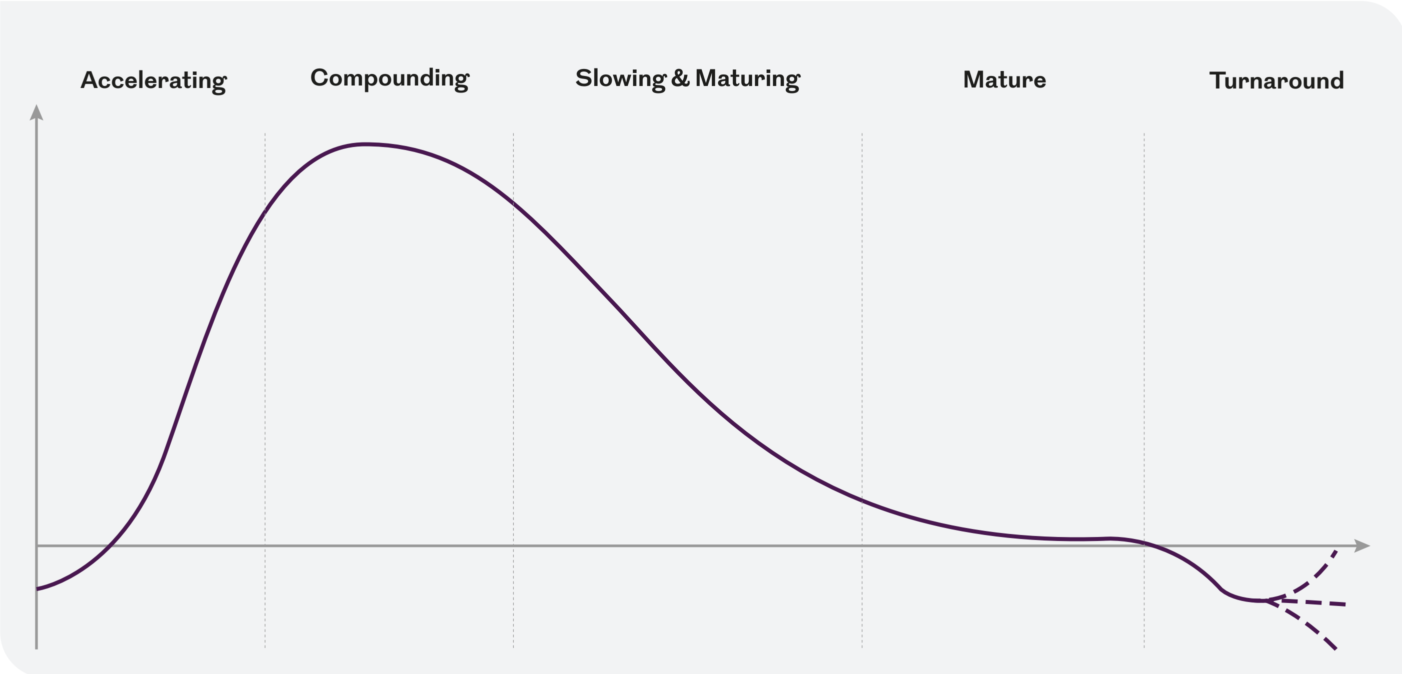
Implement and monitor: Ensure client needs are represented at the portfolio level, such as alignment with the EU Sustainable Finance Disclosure Regulation (SFDR) where relevant.

Figure 2: RLAM Global Equity team investment process

Wealth creation

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 process (figure 3) 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.

Figure 3: Life Cycle process



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.

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 recent development has been extending our product range through our Irish funds vehicle, launching two Global Equity funds which are Article 8-compliant in the 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-looking qualitative analysis is an important way of establishing transition risks and opportunities.

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

Positive	Challenging but attractive	Avoid
Nemetschek	Occidental Petroleum	China Shenhua Energy

Nemetschek – Positive

Nemetschek is a leading software provider to the architectural and construction industry. Construction and operation of buildings accounts for more than 35% of global energy consumption and global CO_2 emissions. The creation and use of this infrastructure is collectively the largest contributor to global greenhouse gas emissions.

Nemetschek is making a positive contribution towards greater climate stability through its digital design and open BIM software which enables architects, engineers and building managers to adopt more resource efficient practises and reduce errors during the process of designing, building, and maintaining buildings. The expanding opportunity is supporting attractive growth prospects that we do not consider fully discounted by the market.

Occidental Petroleum – Challenging but attractive

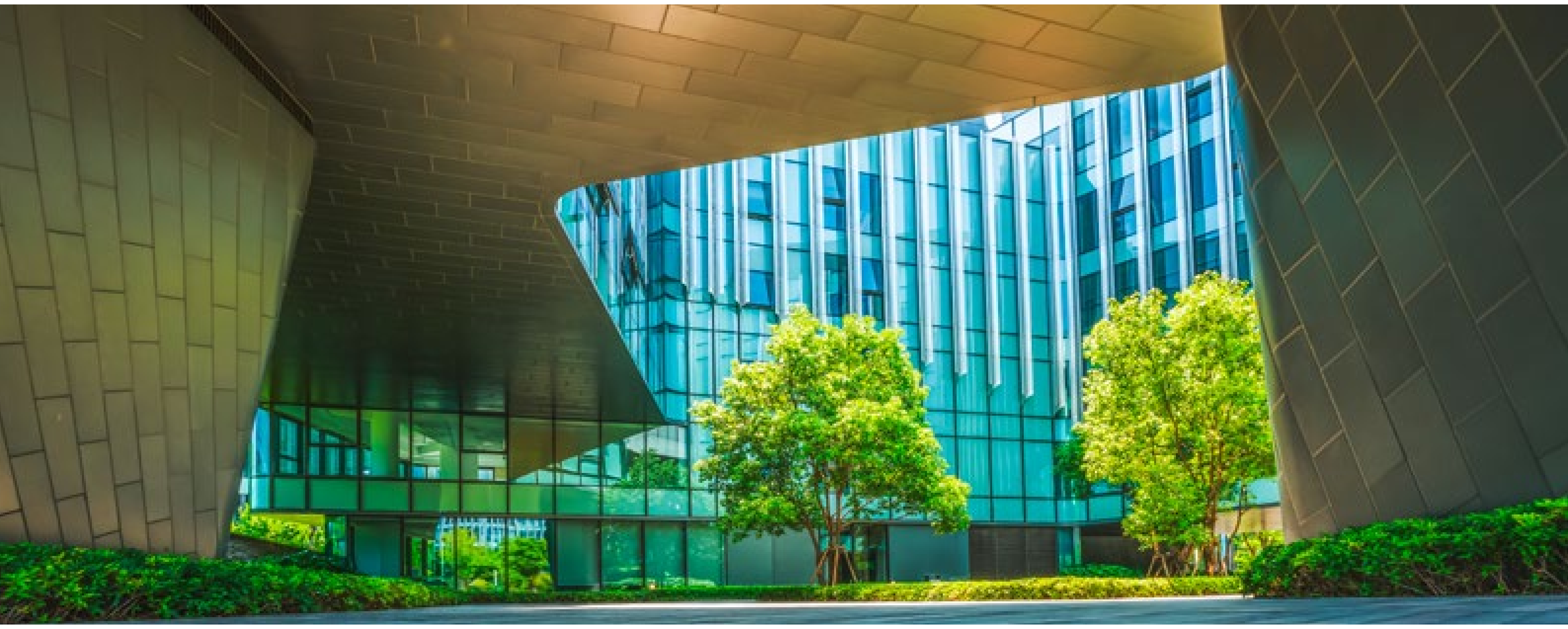
Occidental is a large US oil and gas exploration and production company. Greenhouse gas emissions from the production and consumption of oil and gas for energy presents one of the largest challenges for future climate stability. However, the importance of this commodity for near- and medium-term development cannot be ignored.

Occidental is differentiated from many oil companies by the scale and opportunity to invest in carbon capture technologies, supported by a long history of carbon sequestration via ‘enhanced oil recovery’ in the Permian Basin. This may prove a critical technology in offsetting emissions, and we do not think the opportunities are reflected in the current valuation.

China Shenhua Energy – Avoid

China Shenhua Energy is predominantly a thermal coal mining company. While the financial opportunity can seem initially attractive, given relatively low-cost operations and near-term demand from 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.

China Shenhua Energy 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.



Bixuan Xu
Global Equity
Transitions Fund Manager

Global Equity Transitions

The Global Equity Transitions strategy was launched in November 2021. The strategy seeks to invest in companies that can make a material contribution to the sustainability transition by either: transitioning their business to a more sustainable path ('Improver'), or enabling someone else's transition ('Enabler'), or both. The Global Equity Transitions strategy is driven by a proven and differentiated alpha engine and aims to solve an increasing challenge for clients by:

- Delivering attractive financial returns… without style risk dominating
- Making a real contribution to a sustainable world… especially climate stability
- Demonstrating active stewardship informed by transition milestones.

We consider climate stability to be the most material of these themes from a financial and transition perspective, and hence it is most prevalent throughout the portfolio. Climate stability 'Improvers' will have high current GHG emissions, but if they are willing and able to transition to net zero it can make a huge contribution to the sustainability transition.

We use investor-led engagement to help hold management to account and promote better sustainable transition outcomes in our investments.

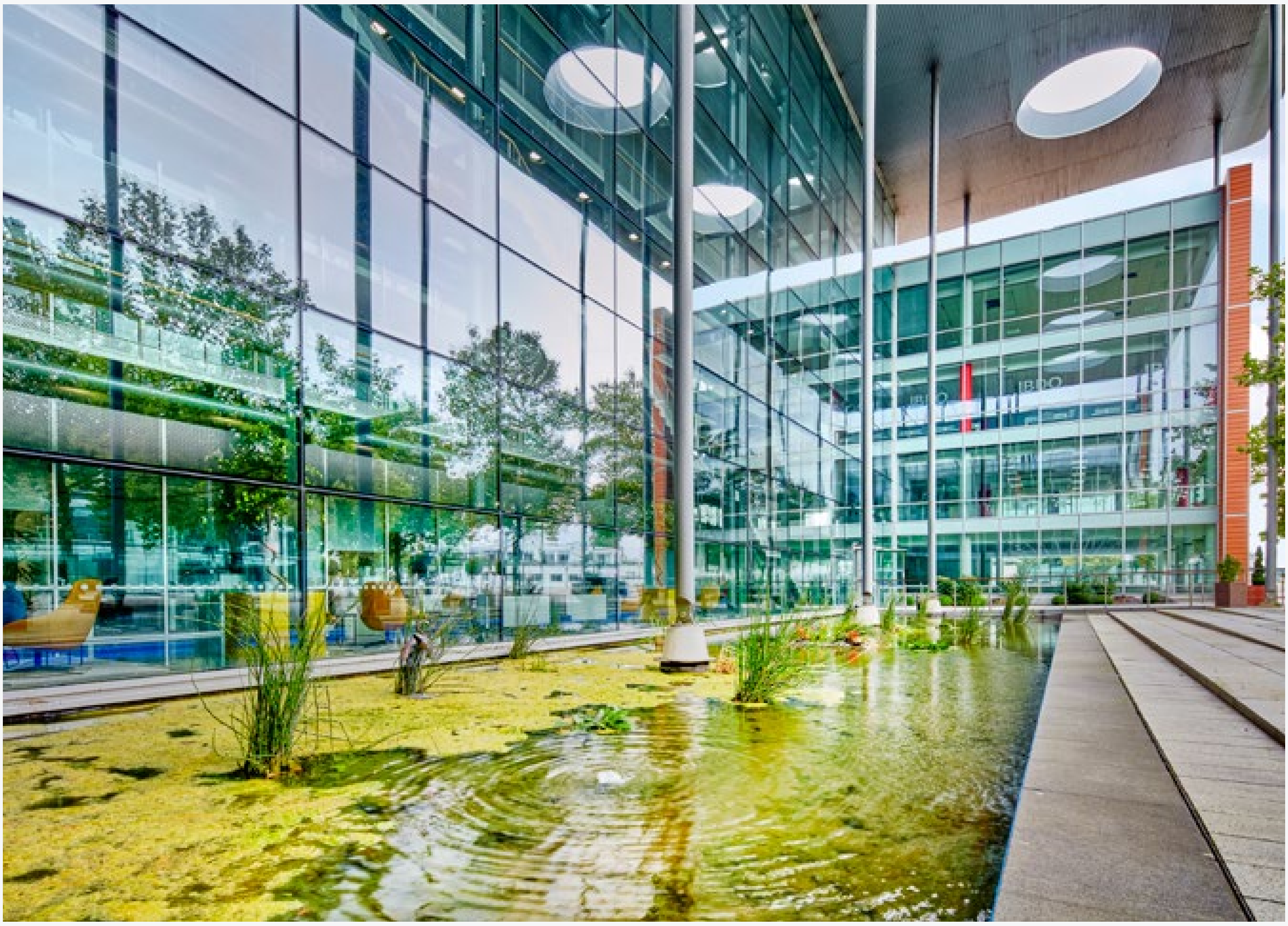
> "Engagement is important in understanding, monitoring and holding companies accountable for both financial and non-financial outcomes."

Case study: CLP Holding – Engagement on climate and just transition

CLP Holding provides electricity supply in Hong Kong and owns electricity generation assets in Australia and China. CLP Group is a climate stability improver, as it seeks to enable the city of Hong Kong to decarbonise by 2040. A sustainable transition also provides financial benefit for the company, as phasing out coal-powered assets will release capital for redeployment into potentially higher return renewable business.

A key part of CLP's transition to net zero is phasing out its coal-powered generation assets. Energy transition in practice involves significant costs and complex stakeholder management. We conduct regular engagement meetings with the company to ensure that the company's transition stays on track.

Throughout our engagement we learned that just transition is a critical part of enabling the phasing out of the coal generation plant in Yallourn by 2028, as the local community relies on the power plant for employment. The company is working actively with local authorities to reskill its workforce and transform its business model. As a result of engagement, our future dialogue will focus on the success of reskilling the workers and finding a tangible business model for the Yallourn power station. You can read more on page 15.



Matt Burgess
Head of Passive & Quantitative Equities

Tilted & Quantitative Equities

We recognise that investors still need broad market exposure to meet their liquidity and performance needs. But we also recognise that there is increasingly high investor demand for carbon mitigation and ESG integration into funds that were traditionally managed as index trackers. In August 2021 RLAM transitioned all of our index tracking equity assets managed on a market cap basis, to 'tilted' strategies. Since the ESG tilts were introduced, in aggregate, the regional pooled funds have reduced their weighted average carbon intensity (WACI) by approximately 22% (to 31 December 2022).

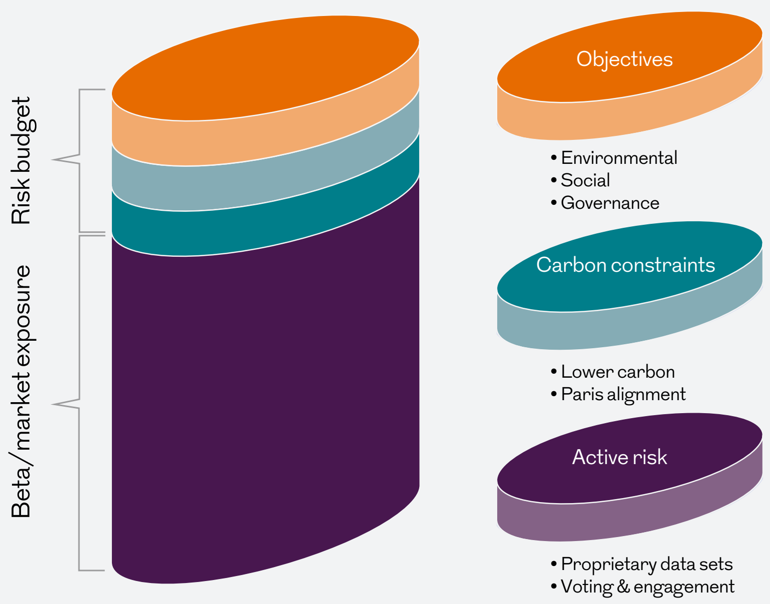
What are RLAM's 'tilted' strategies?

From a performance perspective nothing has changed, and RLAM's 'tilt' funds still look to achieve a comparable risk and return profile to other traditional index tracking vehicles. This is important as, despite moving away from a cap weighted/index tracking approach, investors still have a need for low-cost solutions with 'passive like' capacity and liquidity.

RLAM's 'tilt' strategy introduced a second set of objectives based around carbon intensity reduction, responsible stewardship and entry level ESG tilts. These objectives are achieved using optimisation to produce the lowest possible tracking error portfolio that satisfies both our financial objectives and our ESG and carbon constraints. Importantly, and as the fund names suggests, these objectives are achieved by 'tilting' the fund away from (or towards) stocks and themes that don't (or do) meet ESG best practice. We prefer tilting over exclusion in these funds. Removing stocks from the portfolios completely can result in an inefficient use of our risk budget. While we reserve the right to do so, it is usually more effective from a risk perspective to hold such stocks, but below their index equivalent weight.

How are the funds 'tilted'?

Figure 4: Uses of risk budget in RLAM Equity Tilt funds



In addition to achieving specified improvements in 'weighted average carbon intensity' (WACI) we are able to systematically leverage multiple data vendors, proprietary databases and the expertise of RLAM's Responsible Investment team to incorporate around 10 different additional ESG-related overlays, based on business involvement and a range of internal RLAM insights on areas such as engagement and voting, particularly on climate and remuneration practices.

We also manage the funds with tight active weights on stock and sector. This is to ensure that most of the risk can be attributed to stock-specific climate and ESG issues rather than broader themes which can have an implicit association with macro risk. Such an approach significantly dampens cyclical dependencies and our sensitivity to macroeconomic influences, like rising interest rates relative to 'off the shelf', exclusion-based indices. This robust approach to risk and portfolio construction has resulted in all regional funds performing strongly since transition to the 'tilt' strategy, despite the headwinds that faced sustainable and ESG funds in 2022, which typically rely more on exclusions-based approaches to carbon reduction and ESG.

A compelling alternative to passive allocations

We have built a product set and developed an infrastructure that enables us to be dynamic and to incorporate both an expanding internal set of proprietary responsible investment data and improving external data and disclosure. We believe this gives us a significant competitive advantage over both traditional market cap-weighted, index tracking products and 'off the shelf, third-party low carbon and ESG indices.

We believe that this multi-faceted use of our risk budget provides a compelling alternative for investors needing 'passive-like' allocations while incorporating lower carbon characteristics and entry level ESG objectives.

UK Equities

We are a leading investor in the UK stock market, 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 UK Equity 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, greater ability to gain valuable insights into how companies are managing key ESG issues.

We assess ESG factors to identify where these might be a material risk to a company. This materiality could take many forms, for instance:

- risk of stranded assets from thematic or technological change
- severe reputational risk
- risk of litigation, legislation, or fines
- struggling to retain or recruit staff due to poor practices, or
- corruption due to poor governance.

ESG opportunities

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 those cashflows. The ESG assessments we make are qualitative in nature and give us 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.

Exclusions

We do not operate an exclusions policy based on industries or activities in our UK funds unless our clients explicitly ask for this. However, we would avoid new holdings or sell an existing holding if we felt that ESG risks were too high, or not compensated for by the valuation of the company. Where there are ESG issues in a company, but we think that these 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 to seek improvement.

Stewardship

As equity holders we have a significant stewardship role, which is best achieved by engaging with management teams. Our frequent meetings with UK 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, and we work closely with the Responsible Investment team on the voting decisions for the companies in which we invest.

Our in-house Responsible Investment team plays a supportive role in the team's ESG integration activities, providing expertise on ESG issues, engagements, and regulations. These are discussed as issues arise, and in regular 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.

Richard Marwood
Head of Income

> “For energy companies, how they handle the challenge is very likely to be the dominant investment theme for decades.”

UK equity income strategies

The RLAM Income strategies 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.

Across these holdings we look at ESG from two main angles:

- Where companies are at risk from ESG factors that are either being inadequately managed or are not reflected in the share price.
- Where companies are using their own approaches on ESG issues and adapting to the changes in the world to drive genuine competitive advantages for themselves.

BP & Shell

We've previously talked about the work we do with oil companies, such as BP and Shell, to understand how they are adapting their businesses to deal with the energy transition, as the world moves from a fossil fuel economy to a lower carbon energy system. This is ongoing, as it will be for years to come. For energy companies, how they handle the challenge is very likely to be the dominant investment theme for decades. This work involves looking at how they manage the risks inherent in their existing businesses, be these operational, reputational, legal or financial, and also how they build the businesses that will supply the world's future energy needs.

UK real estate

Companies in the commercial real estate sector – where we own companies like Land Securities, Segro and Workspace – are looking at how they can build and operate sites more efficiently. During construction this might involve trying to reuse as much of an existing structure on site as possible. This may be through avoiding the need for pouring lots of new concrete or choosing alternative and more sustainable materials, such as using more wood. More energy-efficient buildings are likely to have lower running costs, making them more attractive to tenants, potentially commanding higher rents. Tenants of those buildings are also increasingly aware that having well designed workplaces can be a competitive advantage for them. In the new world of hybrid working patterns, we believe better designed buildings are likely to be more of a draw for workers to choose to work in the office rather than remotely, improving employee engagement.

Joe Walters
Senior Fund Manager

UK 'All-Cap' strategies

In RLAM's Core UK Equity Funds, we see our role as investing in businesses capable of growing and delivering positive returns over the long term. To make a judgement on whether a company is suitable for the portfolio, we will assess a range of issues including:

- the business model
- quality of management
- the markets they operate in
- valuation
- ESG record and aspirations for the future.

Two examples of companies we own:

AstraZeneca

AstraZeneca is one of the world's largest pharmaceutical companies, with a portfolio and pipeline of medicines treating significant medical conditions, from lung and breast cancer to rare blood diseases. The firm's drugs bring cutting edge scientific research from the laboratory into medicines which can help to save and transform people's lives. Its scientists are working on drugs which improve targeting of a disease within the body, or work with our immune system to fight cancerous tumours, delivering a new generation of medical innovation. The business is also leading the way on several fronts within its own operations; improving the diversity of its management teams in recent years and setting ambitious net zero goals for 2025.

SSE

SSE is playing a leading role in delivering on the UK's net zero ambitions. The company owns and develops a broad range of renewable generation assets, from building the world's largest offshore wind farm at Dogger Bank, to a unique network of hydroelectric and flexible generation assets across the North of Scotland. It runs high and medium voltage electricity networks which enable solar and wind connections to the UK grid, taking renewable generation from where wind and sun is plentiful to where its consumed. It is also supporting charging for electric vehicles on its distribution networks. Utilities have typically been steady businesses, but the energy transition and a desire for greater energy security has encouraged growth. SSE aims to be producing 50TWh of renewable electricity a year by 2030, four times what it produces today. The company is also working on the decarbonisation of its legacy gas generation assets, and is exploring options including carbon capture and storage, along with hydrogen generation at Keadby 3 power station.

Henry Lowson
Head of Alpha

> “Companies with established and appropriate ESG priorities are having material success in growing their market share.”

Mid and small cap strategies

The cornerstone of the UK Alpha Equities' investment strategy is picking companies we think can grow their earnings and cash sustainably, and faster, over our investment horizon (3–5 years). Fundamental to this is identifying a management team that is financially aligned and a responsible allocator of capital. This is incorporated in our SIMBA process (Scaleability, Innovation, Management, Barriers to entry and unique Assets).

One of the shortcomings in small cap investing in relation to ESG is the lack of data currently available due to the relative immaturity and entrepreneurial nature of such companies. While we believe this will improve over time, a qualitative stock-specific approach is essential for assessing and understanding ESG impacts. This can provide valuable insights.

When filtering our investable universe of over 1000 companies, we seek to avoid certain attributes, including those with poor ESG credentials which we believe could impact the company's ultimate long-term growth rate. Certain mining or gambling companies often fall into this category. We have observed that companies with established and appropriate ESG priorities are having material success in growing their market shares as ESG is something their ultimate customers are demanding.

Coats Group

Coats, a holding in the Mid Cap Fund, has significantly expanded its production of EcoVerde recycled polyester threads due to a surge in demand from apparel and footwear manufacturers like Nike and Adidas. Reducing waste and energy usage has improved its environmental credentials, but also made it more efficient and has contributed to the potential for higher operating margins.

FDM Group

Diversity, social mobility and inclusion are at the heart of FDM, an IT recruiter. It is an essential part of the recruitment of its trainees, referred to as Mounties. Potential talent is sourced from graduates, ex-armed forces and returners to work in particular. Hybrid working models have enabled a more dynamic and flexible business model. Indeed, employers are increasingly requiring help with their human capital needs and focusing on diversity. FDM's ability and history in meeting these needs is driving demand for its services.

To complement our ESG approach in stock selection, we also engage directly with companies to improve ESG practices and performance. We recently engaged with Games Workshop and Integrafin around the companies' executive remuneration plans. We will always advocate that companies have suitable long-term incentive plans, with appropriate and measurable targets that match their stated strategy, thus rewarding management teams for delivery in line with, or better than, shareholder and other stakeholder expectations, rather than relying on short-term discretionary bonuses.

Other engagements have been on workforce engagement and ethnic diversity. At the beginning of the year, we met with STV Group plc, the broadcaster, to better understand how the company is performing on this. While more disclosure is required, the company demonstrated its commitment to effective workforce engagement.

Paola Binns
Head of Sterling Credit

> It can be unhelpful to contrive a false distinction between ESG and credit analysis.

Credit

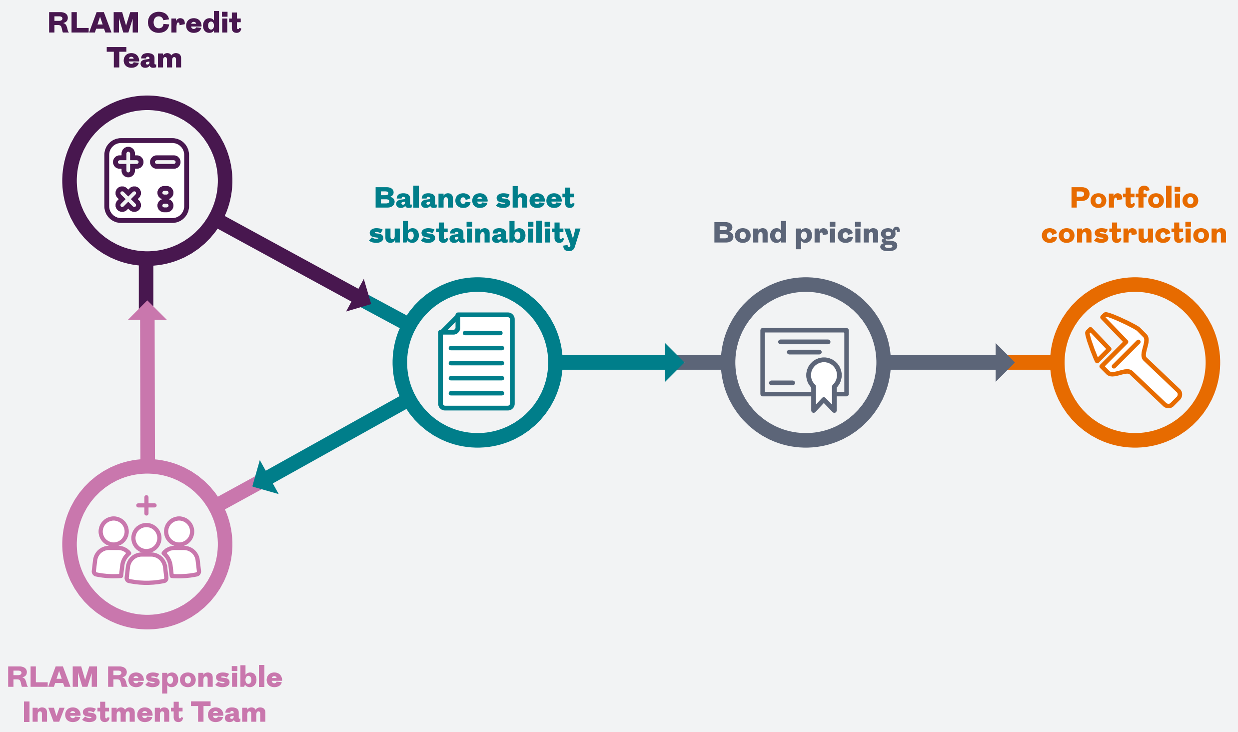
Sterling Credit

ESG integration into our sterling credit analysis framework reflects our primary role as long-term lenders of our clients' money, in the first instance, rather than short-term traders of bonds. Given the asymmetric nature of credit risk and return, the sustainability of our lending position is therefore most critical. As active investors of our clients' assets, we target our risk identification and engagement most intensively on those sectors where we feel there is most ESG risk and more limited third-party ESG research. We find this turns the real challenge of poor and unfocused ESG data available in the market into a real opportunity for enhanced information discovery.

From this origin, it can be unhelpful to contrive a false distinction between ESG and credit analysis. The former is not an adjunct to the latter, and we firmly believe that our best research is undertaken through interaction and collaboration. It feels artificial and counter-productive to be territorial about the source of the risk, when all that really matters is its identification and impact.

Effective collaboration between our Responsible Investment and Sterling Credit teams and a bottom-up approach allows us to embrace the idiosyncrasy and diversity of credit opportunities. The collaboration between these two teams improves information discovery and dissemination, but getting the right decision-making sequence remains key. Non-territorial risk identification, benefitting from the complementary experience and expertise of both teams, then allows our Credit team to evaluate and mitigate the credit risk more effectively (see Figure 5).

Figure 5: RLAM Sterling Credit research framework



This collaborative approach to research provides the perfect bedrock for appropriate issuer engagement. At a general level, we find it instructive to understand the unavoidable subordination of our control compared to the equity holders of a business. Often, the most significant influence we have is during the initial structuring and pricing of new bond issues. The reality is that unless an investor has pre-emptive rights in the legal contract, then a major point of influence has passed. A large proportion of our typical credit portfolios have such pre-emptive controls, through strong covenants and security. From this base, which reflects the economic realities of being creditors rather owners, we are able to target engagement following an established framework where both the impact and the scope for influence is greatest. Our most successful and informative recent engagement projects have all shared key characteristics, being debt-centric, high impact and truly additive to portfolio decision making – as further outlined below. Engaging with issuers and then using this information to better inform our investment decisions is fundamental to our ESG integration approach.

Housing 21

RLAM has been lending to the Housing Association sector for decades. With a focus on the provision of social and affordable housing in the UK, the sector provides an unequivocally positive societal benefit. However, as long-term stewards of our clients' investments, it is incumbent on us to ascertain a wider understanding of how the social impact is being delivered.

Within the social housing sector, we are encouraged by progress on sustainability reporting, including greater disclosure on carbon emissions. While this has helped inform our evaluation of the cost of transition within the sector and frames our engagement, the data must be considered alongside the specific characteristics of the association. Housing 21, a national provider of social housing for the elderly, presented a carbon intensity for 2022 that was considerably higher than the wider sector. Without further scrutiny, such a data point may lead to deselection of the issuer as a convenient way to reduce a client portfolio's carbon footprint and enhance the manager's ESG credentials.

However, this approach would miss both the specific cause of Housing 21's higher emissions, which reflects its greater provision of heating to communal housing schemes than is typical for most social housing companies, and the sector-leading progress it has made on its transition to net zero. During our interactions with management over the year, they outlined the very high proportion of properties that are already rated with an Energy Performance Certificate (EPC) of C or above with an expectation of full transition of its entire portfolio to an EPC C or above well in advance of the government's 2030 target. The group is already using combined heat and power across a number of sites, in addition to solar power, biomass and air and ground source heating, and has committed to only installing non-fossil fuel heating systems in all new developments from January 2023. This means 'scope 3' or uncontrolled emissions, which are likely to be the most significant environmental challenge for the sector, are lower than peers and the cashflow impact of transition to net zero should be more contained.

As well as providing comfort about the sustainability of assets backing our bonds, this also implies one of the lowest costs of transition in the sector, further underpinning long-term cash generation for debt service. We were also encouraged that efforts Housing 21 have made to enhance management processes and internal controls over the past twelve months were recognised in March 2022, by the Regulator of Social Housing upgrading its regulatory governance rating to the highest achievable level. Our continued support for Housing 21 is predicated on an assessment of the underlying sustainability of its balance sheet, including a preparedness for necessary climate transition, as well as positive social impact. Should the credit market begin to recognise these fundamentals more overtly, we would then expect credit spreads to converge with the sector, delivering strong bond performance.

Housing Association bond issuance

Green or sustainability labelled bonds continued to be the preferred method for Social Housing issuance during the year. While the concept appears attractive on the surface, their practical application often ends up best serving borrowers through lower funding costs – and portfolio managers seeking convenience – rather than delivering greater sustainability of returns for clients. In 2022, two of the UK's largest social landlords, London & Quadrant (L&Q) and Places for People (PfP), which between them manage over 200,000 properties, issued a Sustainability Linked Bond (SLB) and Sustainable Bond respectively. While this is not surprising, given the broad social credentials of the sector and observable price and distribution benefits a label can deliver for borrowers, we believe that there can be no substitute for targeted ESG engagement and analysis. Equally, before ascribing significant value to the label, it is critical to assess its specific benefit. For instance, L&Q's SLB has a stretching target for emissions reduction but lacks details on measurement methodology that could dampen its effectiveness. Any consideration of PfP's use of proceeds must be considered against the bond being unsecured, which is a rarity for the sector, and clearly has more fundamental consequences.

Credit ratings and, increasingly, bond labels are providing investors with 'handy' decision-making shortcuts. However, as long-term lenders to the sector we remain motivated to identify, understand and support the specific challenges borrowers are facing to add further value and sustainability to clients' portfolios.

More broadly, despite the structural weaknesses with some labelled bonds, not all green bonds are equal. As with all credit decisions, investments should be made on the basis of the overarching credentials of the specific borrower, rather than more superficial bond characteristics. For example, during 2022, we identified an opportunity to invest in the offshore wind powerhouse, Orsted. Beyond the formal green bond label and specific 'eligible investment' criteria, Orsted is predominantly focused on renewable activities, which not only reduced the risk of proceeds being misapplied, but also ensured our bonds will be directly serviced by environmentally strong assets. Usefully, despite labelled bonds typically delivering a 'greenium' to the issuer in the form of lower funding costs, this particular issue came to market at an attractive spread premium to the company's existing bonds, offering our clients a genuine green investment opportunity without compromising returns.

Go-Ahead Group plc

In addition to more thematic engagement and research, the Sterling Credit and Responsible Investment teams collaborate on more reactive engagement with issuers. Earlier in 2022, RLAM's teams met with Go-Ahead Group to discuss recent corporate governance shortfalls and planned improvements to controls and oversight. RLAM engaged as both a bond and equity holder on two major discussion points. The first topic was the overpayment of subsidies that London and Southeastern Railways (LSER), a subsidy of Go-Ahead Group Plc, accrued from the Department for Transport (DfT) over many years starting in 2006. The DfT uncovered this in 2021, removed Go-Ahead Group as operators of the railways in question and issued them with a fine. Second, we sought further understanding for the six-month delay in the annual report and accounts' publication. This delay resulted in a suspension to trading of the company's shares and bonds, and Moody's downgrading the credit rating to sub-investment grade before removing it altogether. We felt compensated as bond holders through this volatile period based on our evaluation of the issuer's balance sheet and capacity to absorb any likely reparations, as well as a supportive covenant that could have caused the bond coupon to increase by 1.25% to 3.75% should investment grade ratings not be regained. However, as active investors we were keen to engage with the company as soon as practicable to better understand the issues and corrective actions undertaken.

The newly appointed CEO and interim CFO are investigating the control failures that resulted in the subsidy overpayment at LSER. Cultural problems and a lack of oversight from the group due to the complexity of the franchise agreements and contracts were both cited as key issues. Management re-iterated that the issues were confined to LSER which no longer exists as an entity. Coincidently, the DfT issued a penalty notice on the day of our engagement which stated it had evidence to suggest the Go-Ahead Group audit committee explicitly discussed the accrual of subsidies.

The company is undergoing structural changes to mitigate risk including a refresh of the board and implementing a new operating model to enhance oversight. In our view, Go-Ahead is showing commitment to improving corporate governance. New management emphasised it is now working constructively with the DfT and have a positive and transparent relationship; a notion that has been recently validated by the government's extension of Go-Ahead's operation of the Southern and Great Northern rail franchises through their Govia joint venture.

Climate Analysis & Credit

Of all the pressing ESG risks facing our issuers, one of the most impactful and immediate from a financial perspective is climate change. A number of sectors are facing near-term deadlines to demonstrate progress on a transition to net zero and, as a consequence, transition preparedness will have a direct impact on certain issuers' ability to service debt, as well as being a key driver of companies' asset lives and values. Ultimately, there is no distinction between climate and credit analysis.

The development of an in-house carbon data tool has been a critical element of RLAM's ESG integration into our credit process, addressing coverage and mapping issues with third-party systems, and enhancing our client reporting. Just as important to our approach is an acknowledgment that reported emissions data can only ever be a starting point for understanding and must never be relied on in isolation.

Looking though static climate data

A clear example of the necessity for rounded and integrated ESG analysis is Bazalgette Finance, the bond issuing entity for the Thames Tideway Tunnel, the 'super sewer' currently being built under the river Thames. With the company in its construction phase, current emissions are significant, especially when compared to operational utilities, such as gas network businesses. But looking beyond the short term, the Bazalgette funding will provide material environmental and social benefits once the asset is operational, while gas utilities are potentially facing long-term asset stranding risks. As a result, a surface-level 'benefit' from switching from one to the other for an immediate reduction in portfolio emissions would only ever be superficial and temporary. That being said, as significant bond investors in this project, it is incumbent on us to ask how the company is managing its prevailing environmental impact.

During 2022, RLAM's credit and Responsible Investment teams met with management to further understand and challenge the company's environmental mitigation strategy. Although emissions for the delivery of this specific project are largely 'locked-in' at the design phase of the project, we have asked Bazalgette to review ways in which it could have been made more carbon-efficient and how it would support material specification standards evolving within a net zero context. We also asked them to describe more clearly the project's contributions to London's increased resilience to climate change, due to potential increases of extreme weather events or chronic changes in weather patterns for the city. Finally, we requested that it share further information on the biodiversity KPIs that are part of the benefits of the project with DEFRA.

Reported carbon data is, by its very nature, historic and narrow, constraining its overall usefulness as an analytical tool. The illustrations above reinforce our belief that individual ESG data points and scores, while a useful source of information, are a shorthand. We will continue to consider them alongside wider datasets, including those that encapsulate transition risks and, crucially, against the specific characteristics of both issuers and bond structures in an asset class that is strikingly nuanced.

In addition, as part of our integration of ESG analysis, the Sterling Credit team has embraced RLAM's Climate Transition Framework developed by our Responsible Investment team (see page 14, Net Zero Engagement framework). During 2022 we continued to conduct forward-looking assessment on issuers' climate transition plans. Our proprietary framework goes beyond looking at an issuer's current emissions profile and evaluates climate plans against a set of internally developed indicators covering areas such as climate targets, action plans, and just transition. The aim of this framework is to identify issuers with strong transition credentials, and to target our engagement activities on areas where we wish to see improvement.

The framework is qualitative by design and aimed at overcoming the limitations of backward and forward-looking data and analytics in the credit market, and the more nebulous concept of what net zero looks like in reality. It also builds on our proprietary work to better understand bond issuers' historic carbon intensity through data mining, and seeks to encapsulate issuers' indirect emissions (or scope 3 emissions). Therefore, on top of evaluating traditionally high impact sectors, such as utilities and energy, we are particularly focused on sectors where the risks may be more latent and insufficiently captured by certain climate metrics, such as banks and real estate – with further examples in our Sustainable Credit section.

Overall, the development of our transition framework and its adoption into our wider credit research approach is a recognition of how effective integration of ESG analysis is central to the effectiveness of the Sterling Credit team's risk identification.

The water sector and a 'just transition'

As major lenders to critical infrastructure providers, our views are often sought by regulators to help them ensure regulation maintains the right balance between incentives, risks, and effective service provision. In a similar vein to our meeting with the Regulator of Social Housing mentioned earlier, we also interacted with Ofwat, the regulator for the water sector, to give our views on financial resilience.

One of the key credit protections we value for the water sector is the regulator's focus on maintaining the credit quality of borrowers, so we were keen to engage with the regulator to reiterate this point. With debt investors a significant provider of capital to the industry, Ofwat was also interested in our views on potential changes to strengthen the framework on financial resilience. We look forward to the regulator's discussion paper on this topic.

The water sector has been a key area of engagement focus for RLAM over the years and sits perfectly within the parameters for effective creditor influence – a debt-centric sector ensuring greater traction with borrowers and long tenor financing exacerbating sensitivity to certain ESG risks. From an RLAM perspective, the lack of readily available third-party ESG research on unlisted borrowers also increases the value of our bespoke ESG research. During 2022 we started our latest engagement project with the water sector, with a particular emphasis on issuers' drought resilience and flood infrastructure. We are also keen to understand how the material environmental need for investment in these areas can be appropriately balanced with increased cost to the consumer. You can read more about that engagement on page 20.

Given that the water sector has received considerable poor publicity over the past year, and yet remains an important area for debt finance, we believe our active engagement with issuers is vital. Direct interactions allow us to look more objectively beyond the headlines, while ensuring appropriate stakeholder representation on important social and environmental issues. Although it remains unlikely that these issues, in isolation, will materially impact the credit worthiness of the sector given the regulated nature of returns, we believe it is more important than ever that public utilities demonstrate their 'licence to operate' – particularly as consumer finances become more strained and the political landscape more volatile. As long-term stewards of our clients' investments, and a major investor in UK utilities, we will continue to scrutinise and challenge our borrowers on this basis.

Azhar Hussain
Head of Global Credit

Global Credit

The Global Credit team manages strategies in the global high yield and multi-asset credit sectors and is expanding further into emerging market corporate credit. We have seen a significant increase in interest in ESG from clients and potential investors in recent years. It is still early days for ESG analysis in our markets. This is largely driven by the fact that many issuers are private and do not routinely disclose ESG information. However, we see ESG analysis as an opportunity for information discovery and an enhancement to our credit research process. Over the past 12 months we have evolved our approach to more systematically evaluate ESG factors by developing a detailed scoring system. We call this our enhanced ESGC (C for Climate) philosophy, which now combines exclusions, best in class E, S, G & C integration, and an active engagement policy.

Key pillars of our enhanced ESGC philosophy

Our aim is to ensure that investments follow good governance practices, consistent with an SFDR Article 8 Fund. We also look to reduce the likelihood of credit losses through active credit selection, and to encourage positive ESGC outcomes that are to the benefit of our investors and society as a whole through an emphasis on engagement with credit issuers.

As well as the exclusion of credits with direct exposures to controversial weapons and material exposures to tobacco and thermal coal producers, every security is scored against ESG and climate criteria.

Our approach is to score credit issuers on a granular basis and exclude the worst offenders where the credit worthiness is materially impacted. If we believe credit worthiness is not impacted, then we will engage with lower scoring companies and create an active engagement plan with the aim of encouraging these companies to take the necessary steps to improve their ESGC profile. A large part of the global credit investment universe is privately owned, and we recognise that private companies tend to have lower disclosures than public companies. Therefore, our engagement process, designed in collaboration with RLAM's Responsible Investment team, is designed to both improve the flow of information as well as the behaviour of the companies we invest in.

Engagement is of paramount importance to us. The 'easy' option of avoiding issuers with less than perfect ESG performance means those issuers do not get useful positive input and our investors potentially missing out on attractive investments. We believe our approach of supporting companies that are changing their business and improving their ESG and sustainability performance is more impactful than outright exclusion.

> "Engagement is of paramount importance to us. Supporting companies that are part of a transition is more impactful than outright exclusion."

Our scoring and engagement process

The Global Credit team has a baseline governance level approach, wherein governance is always material to the credit worthiness of a company. Our methodology uses governance scores which are derived from our internal analysis and scoring of underlying factors including board structure, pay, audit policies, stakeholders and controversies. These underlying factors are assessed on a quartile-based approach with different weightings advised by our Responsible Investment team, and we avoid any company with a governance level below our baseline threshold.

We use a similar methodology and quartile-based approach to derive scores for 'Environmental' and 'Social' factors but in these areas, we will not look to outright exclusions as is the case with Governance but rather an active engagement plan for companies scoring below our threshold.

We will engage with lower scoring companies, monitoring our internal ratings and our governance and ESGC scores. Our ESGC scores are integrated in our internal credit rating methodology and as such have a direct impact on our investment decision making process.

Over a two-year period, we will re-evaluate the steps low scoring issuers have taken to address our queries. We want to give companies enough time to make meaningful changes and we feel that two years is a reasonable time period to assess this. After that period, if we feel the progress made has been insufficient, we will divest the position.

Climate scoring

When specifically assessing climate opportunities and risks, we cover factors such as climate exposure, ability to transition, willingness to change, and climate controversies. Assessing these factors means we can identify opportunities which should benefit from favourable climate policies. We can also demonstrate improving fundamentals where relevant (including pre-tax profits and free cashflow, scope 1 and scope 2 emissions, and how the issuer will address scope 1 and 2 over time).

Where an issuer's climate score is initially low, either because of its climate policies or exposures, we will assess the level of severity. Where the impact to credit worthiness is considered severe, we will not invest. In instances where existing holdings exhibit material detrimental change, the position will be reduced or exited entirely, depending on the circumstances.

Where there is the potential for the company to improve its climate policies – and therefore reduce the potential negative impact on its credit worthiness – an investment can be considered but active engagement with the issuer will be required. This includes periodic re-evaluations of the business and its policies, along with mitigation steps taken by the issuer over time. If we are not satisfied with the result of our engagement process with an issuer, the position will be exited.

DP World

DP World is a leader in global supply chain solutions. It specialises in cargo logistics, port terminal operations and maritime services, and moves roughly 10% of global trade through its global network. The investment case for DP World was supported by strong free cashflow, its global scale and a significant equity cushion underpinning the credit worthiness of the bonds issued.

Our proprietary analysis did not show any major corporate governance concerns, due to the company's independent board of directors and improved diversity plans. However, our Responsible Investment team flagged several points for further engagement, including labour relations, environmental, waste and water policies, and the need for the company to publish clear key performance indicators (KPIs).

Further analysis and ongoing dialogue with DP World led to our first engagement in late 2021. The company committed to producing its first ESG report in 2022, including waste/water and decarbonisation policies.

Our second point of active engagement with DP World came in early 2022, following labour cuts enacted by its subsidiary P&O Ferries and the absence of union consultations. In this detailed meeting while we were comforted that there was no material credit impact on the company, we were unhappy with the actions taken by the company and gained no comfort that it was willing to reconsider these actions despite the prospect of legal proceedings. As a result we chose to divest our holdings. You can read more about our engagement with P&O Ferries on page 22.

Techem

Techem offers a range of energy services, contracting and efficiency devices, including smart meters. Based in Germany, it holds a top-two position in most of the 21 countries it serves. The business is fundamentally attractive from a creditor perspective, due to the regulated nature of the activities, the predictability of its cashflows and the positive effects prompted by the drive for greater energy efficiency.

In October 2020, we engaged directly with Techem's management to understand a) how it was positioned to deal with ESGC challenges, b) its current disclosure levels, c) how it could drive improvement. We reached the conclusion that while the business was operating in what is a net positive role (for both customers and communities), there was much that could be improved from a measurement and targeting perspective. Our analysis gave the company an ESG score of zero, with no impact on our overall internal credit rating of B+. This led to an investment in the company on the basis of stable ESGC factors with no credit implications (either positive or negative) and the creation of an active engagement plan.

We subsequently monitored Techem on a quarterly basis, through regular reporting as well as conference calls, to gauge whether improvements were being made. We formally engaged with Techem's management in May 2022, and in the Autumn, the company published an updated and more comprehensive sustainability report which introduced specific targets for environmental and climate factors. The progress made gave us confidence to retain the investment.

Craig Inches
Head of Rates & Cash

Rates & Cash

Liquidity and short-term fixed income solutions

We diligently consider ESG factors in our range of liquidity and short-term fixed income strategies, particularly when evaluating our exposure to financial counterparties. We seek to promote environmental and social characteristics and invest in companies and financial counterparties that follow good governance practices to ensure it 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 counterparties 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, and we include several examples from 2022 below.

We recognise that in some cases our ability to engage may be impacted by the shorter maturity profile and investment horizon of these strategies. However, in other cases, even when lending on a short-term basis, we do have long-term relationships with the issuers or counterparties and will seek to advocate for good ESG practices at the corporate level, even if it does not directly impact the specifics of the instrument we are lending to.

However, exclusion is an additional tool backed by significant client demand to exclude certain sectors from our investment universe for liquidity and short-term fixed income strategies. We therefore apply a number of exclusions as standard across all of these strategies, eliminating companies that generate more than 10% of revenues from tobacco, armaments and fossil fuel extraction.

First Abu Dhabi Bank

We advised First Abu Dhabi bank via our broker that its governance scores were too low and as a result we would not be lending to them in longer dated maturity instruments (>3 months) until these scores improved. We were informed that senior management would look to make improvements; the team monitored progress and noted later in the year that its scores were upgraded by our third-party data vendor and we then began investing in longer maturities.

Qatar National Bank

Qatar National Bank (QNB) had poor governance scores, as well as the region having poor ESG scores, and as a result we ceased investment with QNB. During the 2022 football World Cup we had several client queries as to our exposure to QNB as the poor social values of the region were brought to light during the tournament. Our process had excluded QNB from our portfolios and therefore we suffered no adverse client or portfolio impact from the negative press surrounding Qatar.

Credit Suisse

Credit Suisse suffered several high profile governance issues in 2022. Internal research led us to the early conclusion that we should cease any further investment in Credit Suisse in our Cash and Liquidity funds. We continued to hold existing issues and let these mature naturally due to the small exposure and short maturity within the portfolios. In March 2023 UBS agreed to purchase Credit Suisse after the lender ran into financial difficulties.

Canadian and Middle Eastern banks

In 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.

Research & engagement

We continue to utilise ESG factors in managing our portfolios, because we believe these are crucial to understanding the risk profile of our investments. Therefore, we combine our exclusion criteria with ESG research and scoring. Research from our Responsible Investment team and external providers is used to determine an ESG score for each security in our liquidity portfolios. This information is then combined with stress test results to monitor the funds on a regular basis so that we are positioned to make changes in response to dynamic changes to ESG scores at an institution level. We pay particular attention to the macro-geographic bias of a given security. As shown in the examples, where we are presented with an equally viable alternative security, our ESG considerations can often prove the distinguishing factor over another investment.

Our money market and credit specialists and in-house team of Responsible Investment analysts conduct regular engagement with issuers to ensure information is timely, based on the short-term emphasis of our investments. We undertake engagement with many of our large banking counterparties each year as part of our RLAM-wide engagement programme. Our interaction with HSBC last year (next page) is an excellent example of how we can leverage our assets across RLAM to engage with counterparties in our liquidity and short-term fixed income strategies.

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

HSBC's new energy policy

HSBC published an Energy Policy outlining its position on oil, gas, hydrogen, renewables, hydropower, biomass and nuclear; which supplements HSBC's existing coal policy.

RLAM engaged with HSBC during 2021 and 2022 on its net zero commitment and climate transition plans, and alongside the FPF on embedding just transition in its plan. We provided detailed feedback to this policy which was partly incorporated in the published draft.

The policy prevents HSBC from financing new oil and gas exploration activities and any activity in the most polluting and sensitive types of oil and gas, including oil sands, heavy crudes, deep water, arctic regions and the Amazon rainforest. Following our feedback, the bank improved definitions for 'existing' and 'new' oil field and clarified wording of the commitment. The notion of just transition is incorporated as one of the three policy objectives 'support a just and affordable transition, recognising the local realities in all the communities we serve'.

Just transition was also included as a factor when assessing oil and gas clients' climate plans. We asked the bank to change wording from 'consideration' of just transition principles to 'integration' or 'application' of just transition principles, but they did not address this request. The bank will use climate transition plans to assess oil and gas and energy utilities clients. Failure to progress on climate plan disclosures and implementation will mean losing access to finance from the bank.
Upon our suggestion HSBC improved definitions around engagement, making explicit what 'regular' or 'insufficient' engagement meant. However, the bank did not act on our request to include climate lobbying and limited use of offsets in the assessment of climate transition plans.

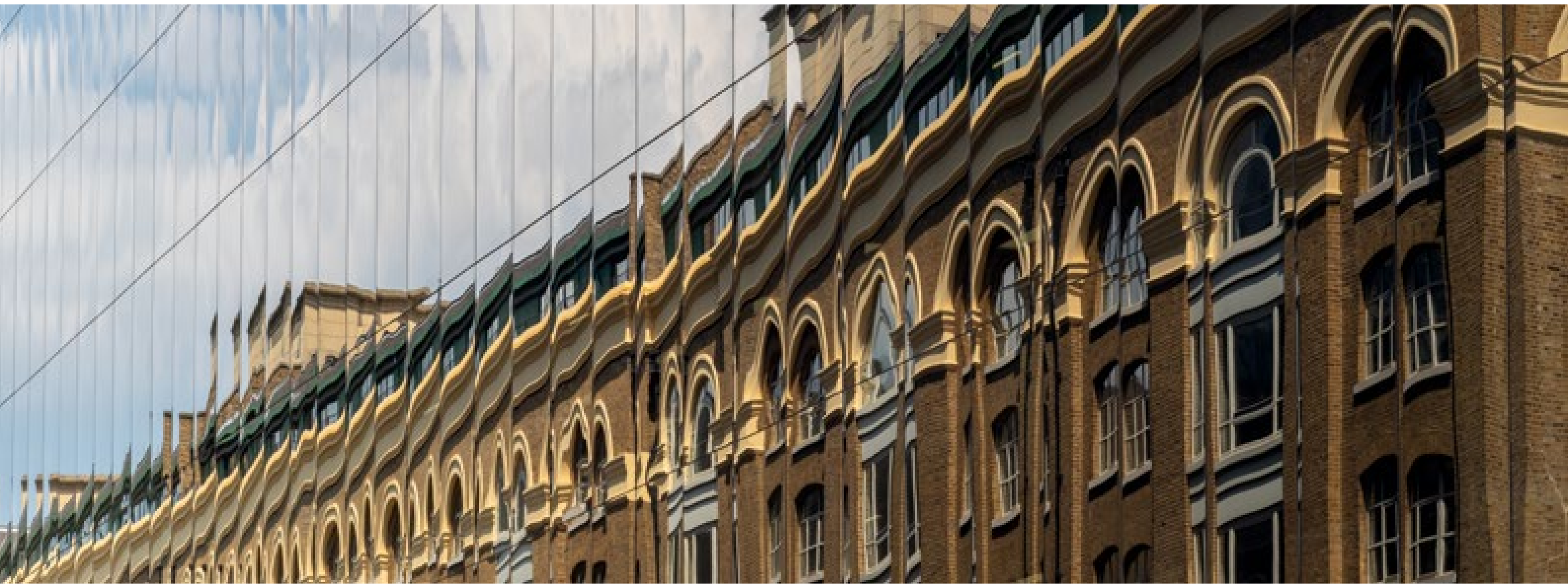
The HSBC energy policy appears to be ambitious and informed by the latest science. We consider it a step forward in meeting our expectations on credible climate transition plans and just transition. Our next engagement objective is to request the publication of a climate transition plan that details the bank's processes for assessing climate transition plans and investment in climate solutions. We will also follow up about the implications of their recent financing of a lignite mine in Germany.

Government bond strategies

Although effective integration of ESG factors in the sovereign bond market is still developing relative to corporate bond markets, we continue to use our position to engage with issuers. For example, we have regular contact with senior figures at the Bank of England and the Debt Management Office (DMO) for the UK government. In 2022 we had several meetings with the UK Treasury and the DMO to get an update on the green issuance program and how the proceeds were being utilised. We also gave feedback on how we want the final report to look and feel when it is eventually published. Our feedback was welcomed and they advised that our assistance in the launch of green assets was invaluable.

We also hold occasional one-to-one meetings with representatives from other DMO entities for countries to share our thoughts and raise potential issues relating to these markets. We also indirectly engage with global debt issuers via investment banks on potential green bond issues.

In the past year, we continued to explore how we can build climate risk measures into our portfolio construction process. For example, on a country basis, we consider the percentage of fossil fuel exports, energy consumption per capita and environmental vulnerability index, among other factors. We worked closely with the Responsible Investment team to help us understand our exposure and make use of the climate metrics and tools now available.



Mark Evans
Head of Property

Property

We understand that the built environment is a significant contributor to climate change. Therefore, we must adapt and address these pressing challenges in order to both minimise the impact of our properties on the environment and enhance the resilience of our portfolio. In 2022, the RLAM Property team began taking key steps to implement its Responsible Property Investment (RPI) strategy and net zero carbon pathway.

ESG action plan

Throughout 2022, we have been implementing an ESG action plan which aims to embed the RPI strategy across the Property estate and subsequently, help us to achieve our net zero carbon targets. It requires the active support and involvement of our Head of Property, Investment Director, and fund and asset managers, and will continue until 2025. The RPI team conducts quarterly meetings with the various teams across RLAM Property to discuss progress against their actions and identify where further support from the RPI team or others is required.

We have an RPI Working Group where the Property team present on key projects and areas of focus, as well as provide sector teams with an excellent opportunity to share their successes and challenges on their own ESG projects. This encourages consistent collaboration on ESG across the Property team.

Below are highlights from a number of actions we have taken during the year.

Sustainable acquisition checklist (SAC)

Integrating RPI throughout the asset lifecycle is an important part of our RPI strategy. We have developed a new SAC to ensure that potential investments meet RLAM's commitments to RPI across its material ESG issues. This includes examining a property's energy performance, flood risk and sustainable building certifications. The SAC has been developed in alignment with the Better Building Partnership's (BBP) Acquisitions Sustainability Toolkit. The BBP Toolkit provides guidance on the ESG criteria that should be considered as part of the acquisition, highlights investment critical ESG issues to consider, and helps to determine whether any mitigation measures may be required for an asset.

Prior to approval by the Property Investment Committee (PIC) and completion of a property purchase, the SAC is used to advise our asset managers on how to improve the ESG credentials of the asset. This process will help to mitigate risks and maximise opportunities to add value across the portfolio, while enhancing sustainability performance.

Utility logger programme

We gather utility and water consumption data across our property portfolio to track progress towards our net zero carbon targets more accurately and ensure that we are making well-informed investment decisions. To help deliver against our net zero carbon pathway, we have invested in utility loggers to provide us with accurate and automated collection of electricity, gas and water usage data. After a successful trial of these utility loggers across three of our Fully Repairing Insuring (FRI) units, we have been focusing on installing these utility loggers across our top FRI units by floor area in order to capture a large proportion of our portfolio's utility and water consumption data. Access to this data enables us to periodically review progress against our net zero carbon targets and encourages engagement with our occupiers to work collaboratively towards reducing their energy and water consumption. This creates both carbon and financial savings which is particularly crucial with the increasing cost of energy.

Net zero carbon audits

We have commenced net zero carbon audits across 22 of our multi-let office buildings. These audits will analyse the performance of the building in comparison to the 1.5°C pathway set out by the Carbon Risk Real Estate Monitor (CRREM). This will identify a set of interventions required to meet likely decarbonisation and energy reduction targets. Assessing these assets against CRREM pathways is critical to understanding the alignment of our directly managed assets with our target of achieving net zero carbon by 2030. Once complete, we will look to extend these audits across the remainder of our multi-let offices. In addition to net zero carbon, these audits will assess water usage, waste generation, and health and wellbeing.

Rathbone Place

Renewable energy capacity

RLAM Property's net zero carbon pathway aims to generate up to 9.5 GWh of renewable energy on-site by 2040 across the whole portfolio. To achieve this target, the first stage is to understand the potential for on-site renewable energy capacity across the portfolio, prioritising the installation of solar photovoltaic (PV) panels. We have taken a strategic approach of determining the potential for solar PV panels across our retail parks and industrial assets. These asset classes provide us with the greatest opportunity to maximise on-site renewable energy. An initial solar PV feasibility study will be undertaken to analyse all industrial assets and retail parks to highlight which sites are appropriate for solar PVs. The outputs of this study will enable us to make critical investment decisions regarding the installation of solar PVs.

Property management

The end of the Covid crisis has allowed a slow return to normal working patterns. This has led to new challenges as we balance the need to reduce energy consumption to minimise our carbon footprint with the requirement to improve air circulation within our buildings. Many Covid-related safety measures implemented by our property managers have continued as occupiers have raised expectations in terms of cleanliness and airflow.

We have increased our efforts to reduce energy, waste and water consumption. This has been, in part, a response to the energy crisis dramatically increasing costs but also resulting from an increasing demand from occupiers for more efficient buildings. For example, this has included the installation of advanced smart technology which communicates with the Building Management Systems (BMS) to identify inefficiencies and potential savings.

Our property managers continue to engage with occupiers to ensure they are satisfied with the services provided, this has included regular newsletters, onsite meetings and an annual satisfaction survey. The overall aim is to ensure we are meeting occupier needs and addressing any concerns.

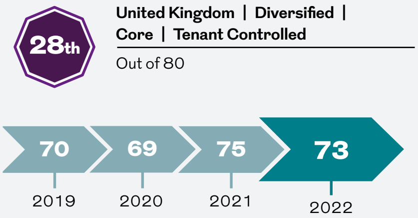
> “We balance the need to reduce energy consumption to minimise our carbon footprint with the requirement to improve air circulation within our buildings.”

Benchmarks, reporting and achievements

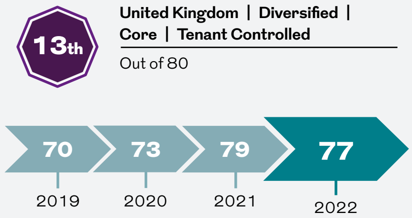
Global ESG Benchmark for Real Assets (GRESB)

The annual GRESB survey is recognised as a measure of sustainability performance. It is the leading ESG global benchmark for real estate and infrastructure investments. It is used as a key decision-making tool for investors, asset managers and the wider industry. GRESB assessments are based on seven sustainability aspects, including information on performance indicators, such as energy, greenhouse gas (GHG) emissions, water and waste. This year, we maintained our ratings of four stars in Royal London UK Real Estate Fund, and three stars in both the Royal London Pension Property Fund and Royal London Property Fund. Our results for our standing investments are illustrated below.

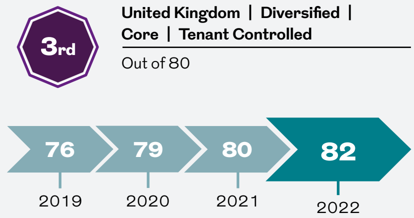
Royal London Property Fund



Royal London Pension Property Fund

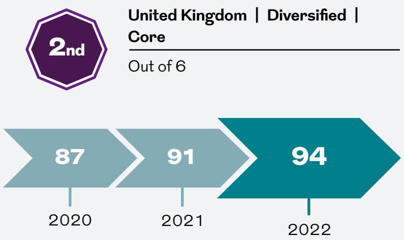


Royal London UK Real Estate Fund

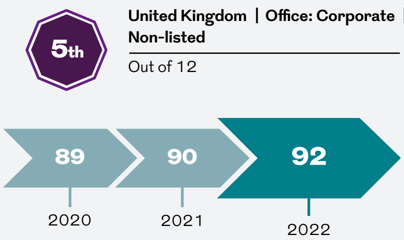


Two funds were also entered into the GRESB development section this year. Our star ratings were maintained across both funds, achieving five stars in the Pension Property Fund and four stars in UK Real Estate Fund. However, we were pleased that our scores across both funds increased, as shown below.

Royal London Pension Property Fund



Royal London UK Real Estate Fund



Streamlined Energy & Carbon Reporting (SECR)

Streamlined Energy & Carbon Reporting (SECR) is a mandatory Government scheme that replaced the Carbon Reduction Commitment (CRC). It requires funds to disclose intensity metrics such as energy use, carbon emissions and energy efficiency actions. In 2022 we reported the following greenhouse gas emissions for our 2021/2022 reporting period* across the property portfolio.

Task Force on Climate related Financial Disclosures (TCFD)

We will be reporting in line with the TCFD for property in 2023. Due to the legislative requirement for RLAM to report against TCFD by 2023 and an increasing need to assess climate resilience across the property industry, the RPI team have started a TCFD programme. This programme includes determining the material physical and transition climate-related risk and opportunities specific to our property portfolio and investment strategy, as well as conducting high-level scenario analysis. We plan to produce a property-specific TCFD-aligned disclosure in 2023.

Scope	Emissions source	Emissions (tC02e)
Scope 1	Landlord-controlled gas	3,069
	Landlord-controlled refrigerants	252
Scope 2	Landlord-controlled electricity (location-based)	5,556
	Landlord-controlled electricity (market-based)	0
Scope 3	Tenant-controlled electricity and gas	54,317
Total		**63,194**

*Property reporting period is October 2021 to September 2022. Numbers subject to rounding.

2 City Place, Gatwick

Real Estate Environmental Benchmark (REEB)

REEB is an operational benchmark of environmental performance for commercial property. 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 2022, we submitted data for 47 of our properties, an increase from 37 last year.

In 2022, we received 14 Green Apple Awards and two Commended Awards. These were awarded for a variety of biodiversity initiatives including the installation of bat and bird boxes, hedgehog houses and bug hotels, as well as wildflower planting and eco sculptures. Furthermore, we have been given recognition for implementing community engagement projects, such as donating a bird box to a local school as part of National Bird Week, as well as energy saving initiatives, including the installation of passive infra-red sensors (PIR) on lights to help reduce energy usage.

Clean City Awards

In 2022, RLAM Property also achieved four Clean City Awards. These awards recognise actions taken to improve air quality, such as distributing a travel plan to occupiers, and engagement with occupiers and service partners, such as creating a sustainability working group. In addition, we were recognised for reducing single-use plastics through actions including implementing chemical free cleaning solutions and introducing new waste streams, such as disposable glove recycling.

Industry Collaboration

We continue to be active members of organisations including the BBP, UK Green Building Council (UKGBC) and the British Property Federation (BPF). Furthermore, we participate in a number of BBP Working Groups covering various sustainability topics, including:

- UK NABERS
- Net zero carbon
- Climate resilience.

These industry bodies provide useful collaboration opportunities with other professionals across the industry and highlight key ESG issues to tackle in the built environment.

Property development

Approximately 50 construction projects are currently underway at RLAM owned sites. 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.

Sustainability standards

In 2022, we continued to implement our new construction & major refurbishment sustainability standards. These feature nine sustainability categories, illustrated below.

The categories include 58 targets that have been mapped against the relevant United Nations Sustainable Development Goals (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 the Project Director or strategic sustainability consultant.
- External contractors to procure 100% green tariff energy for construction works.
- All new-build and major refurbishment office developments to undertake UK NABERS Design for Performance (DfP) 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.
- A feasibility study of low and zero carbon technologies, including district heating networks, Combined Heat and Power (CHP) and renewables shall be undertaken for new-build and major refurbishment projects.
- All new and major refurbishments to maximise biodiversity net gains on site or nearby.
- Major new build and major refurbishment developments will support and promote the provision of training and skills initiatives in the local area during the construction phase, with a minimum of two apprenticeships or work experience students during construction, and one site visits for local schools/residents.

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

Statesman House, Maidenhead

Detailed planning consent has been submitted for a 110,000 sqft, new-build office, forming part of a wider site masterplan that includes a further 125 residential units and a separate 70,000 sqft office. The initial phase, commencing in 2024, will deliver the larger office building and will target ambitious sustainable criteria, including BREEAM 'Outstanding', WELL Building 'Gold' Standard, EPC 'A' and net zero operational carbon. The development is also part of the UK NABERS DfP Pioneer Programme targeting reduced operational energy levels. This 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 sqft office space and 27,000 sqft retail space. The development is targeting best-in-class ESG credentials including all-electric building systems that remove the need for gas-powered plant and equipment. The building will also target the WELL Standards 'Core and Shell' Gold, EPC 'A', BREEAM 'Outstanding' and SmartScore 'Silver', as well as incorporate on-site solar PV for renewable electrical energy production.

Holborn Viaduct, London

Detailed planning consent has been granted for a new, high quality, flexible and sustainable 250,000 sqft office development. Our aim is to create a workspace that is adaptable in the post-pandemic world, thereby futureproofing the optimisation of the asset. The building will target best-in-class sustainability credentials, including BREEAM 'Outstanding' and WELL Building 'Platinum' Standard. Holborn Viaduct will also be a net zero operational carbon development. Solar PV will be provided onsite, as well as heat pumps, minimising carbon 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

Multi Asset

The RLAM Multi Asset team manage portfolios primarily using an underlying blend of actively and passively managed in house single asset class funds. In this way, as a fund-of-fund structure, each and every Multi Asset fund benefits from having ESG embedded within the investment decision-making process of each asset class and fund strategy.

Wider ESG factors are also captured and reflected in our strategic asset allocation process via economic forecasts. The Multi Asset team publish regular views on this on the RLAM website, including on the importance of climate change as a driver for higher future inflation.

Our Philosophy

Broad diversification is at the core of RLAM's Multi Asset portfolios, providing resilience to potential market shocks, but we also recognise our important role as stewards of our investors' capital.

Each Multi Asset portfolio benefits from strategic asset allocation, consisting of a core range of diverse assets that seek to deliver above-inflation growth to our customers, over the medium to long-term.

This has been particularly evident this year. We have provided resilient investment returns to our Multi Asset clients in the face of market adversity through a more diversified core mix of products, complemented by our active tactical asset allocation process.

Equities

The equity element of our Multi Asset portfolios is predominantly invested in RLAM's tilted equity funds which use quantitative models to reduce exposure to the largest carbon emitters and poor ESG performance, whilst increasing exposure to the lowest emitters and better ESG performers. You can read more information on these funds on page 59. RLAM also uses its voting power to positively influence corporate behaviours, as discussed on page 31.

Approximately 30% is in actively managed funds where ESG analysis informs the decision-making process. In emerging markets, our exposure is through the Royal London Emerging Markets ESG Leaders fund which aims to mitigate risks associated with those parts of the world where corporate governance issues can impact performance and investment returns.

Fixed income

Our fixed income allocation is invested in RLAM's in-house fixed income funds, which embrace ESG as part of their analysis, valuation and selection of debt securities. The credit team works closely with the Responsible Investment team to investigate any significant ESG risks and understand how this may impact the ability for the borrower to repay.

Money market instruments, such as cash, bank deposits or short-term fixed interest securities are assessed similarly. In addition, these funds are prohibited from making cash investments in any company which generates more than 10% of its revenue from tobacco, armaments, or fossil fuel extraction.

Property

Access to in-house property funds is also a key and distinctive part of our Multi Asset offerings. Our property funds ensure that sustainability and carbon footprints are fully integrated into asset management and development activities, as well as fully assessing all ESG aspects when considering new acquisitions. RLAM aims to buy and develop high quality premises, delivering strong long-term returns to our investors. ESG integration is key in determining which properties to buy and sell, as well as minimising any negative impact these have on the local environment and communities through ongoing property management. RLAM's team has recently carried out a thorough review which set long-term goals for achieving Net Zero in the property asset class, as well as factoring in how this objective translates to every new development and purchase.

Commodities

Another distinct aspect of our Multi Asset portfolios is the commodities allocation within our strategic asset allocations. These exposures enhance portfolio resilience in the event of unexpected bouts of inflation and have proved to be particularly beneficial in stabilising and enhancing portfolio returns over the course of 2022.

RLAM does not own physical commodities; instead it takes exposure to instruments that producers and consumers use to agree prices at a specified future date. Commodity futures play an important role in the global economic system in providing pricing stability and certainty of future demand for both producers and consumers across crucial energy, metals, and agricultural commodity markets. While RLAM cannot directly influence ESG matters through these instruments, we are well placed to influence the production and consumption of commodities, primarily through the shares we hold in the companies involved. During 2022, we spent a significant amount of time undertaking research on how we can better incorporate ESG and climate considerations into our commodities exposure. In understanding the importance of ESG factors to our investors, we hope to enhance our commodity ESG credentials further in the near future.

Derivatives

The RLAM Multi Asset team also uses derivatives to implement dynamic tactical asset allocation in a time and cost-efficient way. Key governance factors are embedded through our oversight and 'best execution' processes. Analysis of ESG factors in counterparty risk is a key consideration when onboarding new counterparties, and RLAM has readily acted by moving exposures away from counterparties if a concern is raised.

In 2022, we officially launched our new Dublin-domiciled, euro-denominated Multi Asset fund range. The funds invest in a blend of actively and passively managed single asset class funds with a derivative overlay for tactical asset allocation – an investment process that is in line with all other RLAM Multi Asset funds. This fund range also invests in RLAM's Global Sustainable Equity fund which puts sustainability at the heart of the fund's overall investment objective.

Focus on climate and carbon exposures

Since the time of the last RLAM Stewardship report publication there have been substantial developments in building more robust internal capabilities that capture in-depth ESG factors of our holdings including climate metrics. This gives us the ability to present a Warming Potential (forward looking) as well as Weighted Average Carbon intensity (WACI, backward looking) metric for our Multi Asset portfolios.

Recognising the evolving nature of climate disclosures and metrics, we look at carbon exposures both from a historic perspective as well as forward looking versus the Paris Agreement of limiting global temperature increase to well below 2°C. Recognising that such a goal can only be achieved incrementally, such metrics are tracked over time with, where available, assessments relative to relevant benchmarks.

The availability of this analysis enables us, and our clients, to fully understand our carbon exposures, the biggest contributors and the ways in which we are engaging with these companies as we progress the green transition.

Finally, the Multi Asset team has benefitted from ongoing training and education activities from the RI team centring on the market, scientific and legal backdrop of Net Zero as well as numerous demonstrations of climate data aggregation software tools available to raise carbon awareness in Multi Asset portfolios.

Richard Caston
Senior Fund Manager

Private Equity

RLAM's private equity exposure is through independently managed funds. We select experienced managers and assess their prior track records during our due diligence process. We focus primarily on well-established mid-market funds that invest and operate in the UK and (to a lesser extent) in other European markets, such as Scandinavia and North-western Europe. We look to invest with managers that share our values and our approach, and who support the Principles for Responsible Investment (PRI).

The industry body which represents private equity in the UK, the BVCA (British Private Equity & Venture Capital Association), is encouraging increased reporting and focus on Responsible Investing. For example, its 'Excellence in ESG' process encourages firms to develop and refine their approach to ESG.[15]

The funds we select are not pure-ESG focused funds, but we do expect ESG factors to form part of the investment decision-making process. In the context of private equity, we believe it is better to focus on a broad range of investment attributes, while ensuring that every fund we partner with attaches a high and appropriate level of importance to ESG matters, and act as responsible stewards of our clients' capital.

In 2022 RLAM made commitments to the following funds:

- Growth Capital Partners V LP
- ECI 12 LP
- Synova Fund V LP
- Stirling Square Capital Partners V LP
- Apiary Capital Partners II LP

In our view, these latest funds all reflected current thinking on ESG and Responsible Investing in their policies and strategy.

15 https://www.bvca.co.uk/Our-Industry/ESG-and-Responsible-Investment/Excellence-in-ESG

Apiary Capital Partners ESG policy

For Apiary, ESG and Sustainability is a multi-faceted lever that is underpinned by growing sustainable businesses that are responsible employers and corporate citizens, while generating superior risk-adjusted returns for its underlying investor base. Apiary believes that businesses which actively engage with social responsibility achieve improved performance, and therefore enhanced returns to investors. The company is committed to generating strong investment returns for clients by integrating ESG considerations into its business practices at both Apiary and portfolio company levels.

Apiary is a signatory to the United Nations Principles for Responsible Investment (UNPRI) and uses these as a guide to internal policy. It will consider ESG matters when evaluating potential investment opportunities and monitoring portfolio companies, and tests compliance with relevant regulations and principles during due diligence and during the period of ownership. ESG issues are not anticipated to be a material risk factor due to the nature of Apiary's investment strategy, which is to target the business service sector in the UK. Any material ESG matters arising from due diligence will be discussed with the Investment Committee ('IC') and no investment will be made until ESG risks are thoroughly understood and mitigated.

Two example investments our private equity funds have made in 2022:

Zenergi

Zenergi was founded in 2003 and supports organisations across the UK with its energy procurement, legislation, and carbon reporting. The business also identifies ways clients can reduce their energy use and leads projects in energy efficiency and renewables. ECI, one of our larger private equity firms has made an investment in this firm.

Mallcomm

Mallcomm is a property management technology business. It provides property owners, particularly in the retail sector, with data analytics technology to ensure properties are managed as efficiently as possible. By helping eliminate paper-based processes and switching to digital energy data collection, property managers are better able to lower their energy consumption and reduce waste. Our private equity fund run by Synova recently invested in Mallcomm.

Further Reading

Our Approach: Engagement

Setting thematic priorities

We review and set our engagement priorities every two years (see page 12. We have a two-step process for reviewing our engagement themes: research and horizon-scanning, followed by comprehensive client consultation and review. We compile a long list of 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 non-governmental organisations (NGOs). From the long list, we identify a short list of new potential engagement themes. We also complete a client consultation with two main aims: the first is to review prior themes and to agree whether they should continue, the second is to propose new themes to our clients and gauge interest.

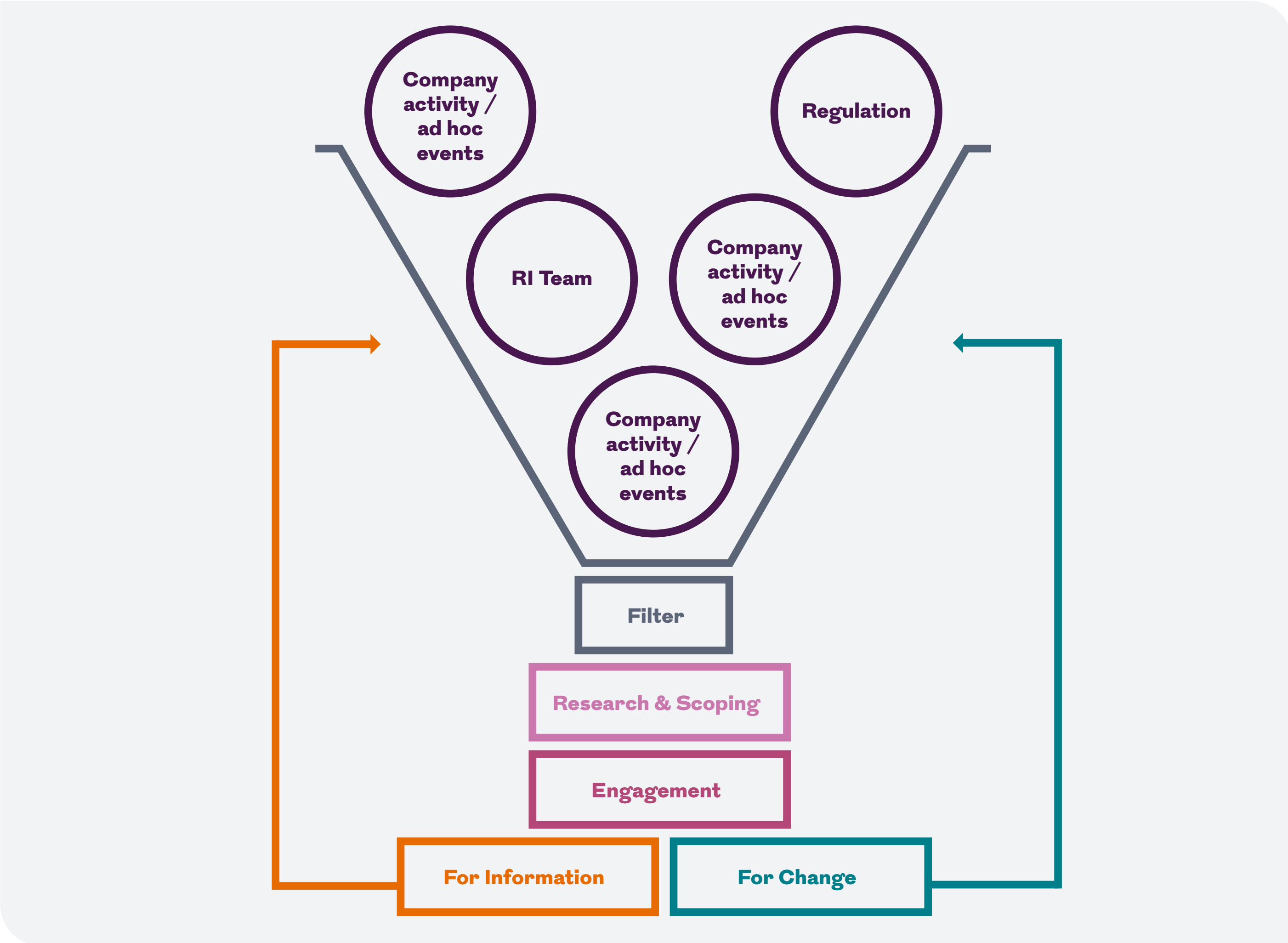
We last reviewed our engagement themes in 2021 and discussed this in detail in last year's Stewardship and Responsible Investment report.

New or emerging engagement ideas

Opportunities to engage with a company on a topic are reviewed by the Responsible Investment team in consultation with the investment teams. There are several ways we source new engagement ideas, including from internal ESG research, portfolio reviews, client requests, fund manager queries, regulation, events or company requests. While we would like to work on many of the new topics that we come across, this isn't always possible, so when new issues or topics emerge, we apply a filter to help us focus on key priorities, such as:

1. Is there a potential material financial or ESG impact?
2. Does it address a social or environmental issue or Principle Adverse Impact (PAI)?
3. Do we have a significant holding?
4. Is there a significant reputational risk?
5. Does it fit with our engagement themes?

For thematic 'engagement for change' activities, the Responsible Investment team will undertake research and set out a clear purpose for the engagement.



When and how we engage

We engage across our equity and fixed income funds. We want our engagement with companies to serve a clear purpose, it must meet the needs of our clients and have clear outcomes.

Types of engagement

Engagement can take two forms: engagement for information, or engagement for change:

- **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.
- **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.

New engagement projects

New engagement projects – or requests to sign joint letters or public initiatives – must 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
- 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.

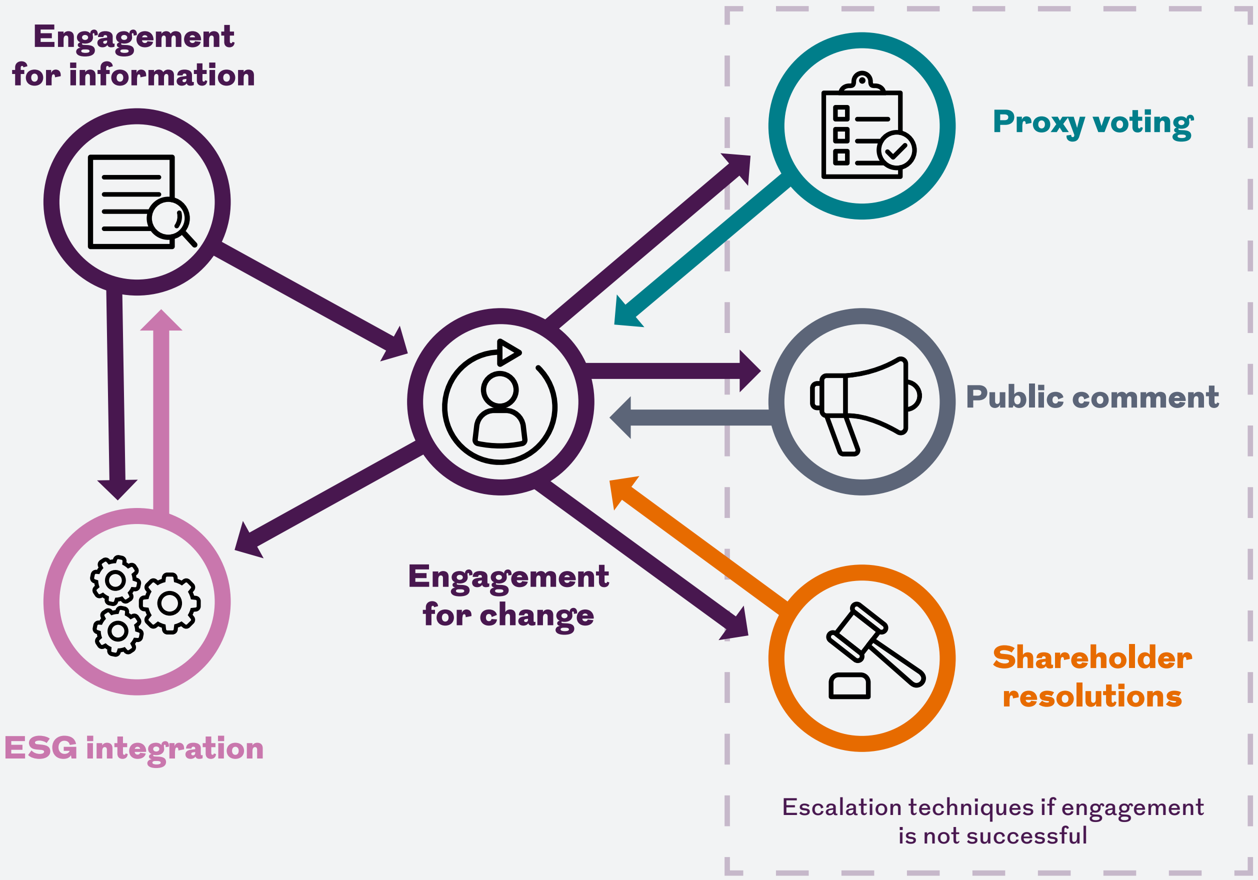
Escalation and public comments

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 Chair 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 or general meeting. In some instances, when the issue warrants, 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 6 illustrates how our escalation process fits between engagement and ESG integration.

Figure 6: Escalation process



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 gained by working with others to be more effective in influencing company behaviour. Therefore, we also evaluate the benefits of 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 other shareholders or bondholders would make it easier to gain access to the company's management or board or provide us with greater ability to exert 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:

- Bank of England and FCA – Climate Financial Risk Forum
- FRC – Vote Disclosure
- Institutional Investors Group on Climate Change (IIGCC) – Electric Utilities (Co-Lead), Banks, Offsetting & Net Zero Implementation
- Net Zero Asset Managers Initiative (NZAMI)
- Climate Action 100+ – Co-Lead for three companies
- The Investor Agenda – Governments on the Climate Crisis
- Ceres – Just Transition
- Financing the Just Transition Alliance – Climate Transition Plans
- Friends Provident Foundation & RLAM – Just Transition Strategy – Banks, Social Housing & Utilities
- Interfaith Centre on Corporate Responsibility – Just Transition to a Clean Energy Economy
- International Labour Organisation – Just Transition Finance Tool for Banking and Investing
- World Benchmarking Alliance – Just Transition
- FAIRR – Biodiversity: Waste & Pollution
- Water Utilities collaboration with RLAM clients
- CCLA – Workplace Mental Health
- Cybersecurity collaboration with RLAM clients
- Swedish Council of Ethics – Human Rights in Technology
- 30% Club – Gender and Ethnic Diversity

Our Approach: Voting

Our UK and Global Proxy Voting Policies are publicly disclosed on our website. In applying these, 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. We analyse each resolution to determine whether the company is acting in accordance with our policy and with local best practice.

We aim to be consistent from year to year. If we have previously abstained or voted against, we will only change our vote where we feel the company has significantly improved. We will also consider any engagement we have had with the company and reflect our thoughts on any progress in our vote.

Our Voting Policies are reviewed annually and signed off by the RLAM Investment Committee. In updating our Voting Policies, we will incorporate new and emerging best practice, any feedback we may have received from clients, changes in local governance or stewardship codes, and our own evolution in thinking.

Our preference is to vote 'as a house.' All our funds are voted in the same way. To ensure this, our voting process is intentionally managed by our RI team, who work alongside the investment teams. We believe that collaboration and discussion across teams on governance and voting issues results in the best outcomes for customers. We believe this 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 in voting also helps to prevent bias and ensures a balance between following our voting guidelines and taking the specific circumstances of the company into account.

The proxy voting process

The RI team executes votes according to a comprehensive set of Standard Operating Procedures. We use Glass Lewis' Viewpoint as our voting platform. Votes are sent to Viewpoint by our custodians or our clients' custodians. For each agenda item, Glass Lewis applies RLAM's custom voting template, reflecting RLAM's policies. The RI team then conducts its own review of every vote, considering external factors, company engagement and discussions with fund managers. The vote is then approved by a member of the RI team.

Because we vote as a house, we have detailed internal discussions on key votes to ensure we reflect the views of our fund managers and/or our clients where reasonably practical. We routinely flag controversial votes to fund managers to allow time for this discussion and debate. Controversial votes may include those where we are voting against for the first time, a potentially high-profile issue, a topic or company in the press, or where we have serious concerns. Voting recommendations for the majority of our funds[16] are circulated to fund managers (for their own funds) providing full visibility and an opportunity to raise any objections prior to the vote. Any differences of opinion on proxy votes are discussed and agreed collaboratively. In the rare instance where the RI team and fund managers cannot agree, 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.

16 Excluding our quantitative equity tilt funds or funds that passively track an index.

Informing companies of our vote

Where we abstain or vote against management in an actively managed fund[17], we will use our discretion to write to 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.

The scope of voting at RLAM

We make reasonable endeavours to vote all our eligible shares in our equity funds. However, there are occasions where we are unable to vote, or choose not to vote; for example, if shareblocking[18] is in place, or if the local market requires us to arrange a local power of attorney.[19]

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 must submit votes late after our internal 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.

Client-directed voting

Our preference is to apply a consistent approach to voting. We value hearing the different perspectives of our clients and we work with them to incorporate these into our voting practices where possible so that we can speak with one voice on key voting issues. However, we understand that some clients may wish to retain their own voting rights, and that some clients are beginning to think about how they can have a more effective voice in voting for their assets. We are working closely with our clients and peers to understand the best approach for reflecting client views in our voting decisions.

Segregated clients

Some of our segregated clients choose to retain their voting rights and vote themselves. At their request we can provide details on the voting position RLAM is taking and why. Clients may then choose to follow our recommendations or vote according to their own policy.

Most segregated clients have delegated voting responsibility to RLAM, but some retain the ability to override RLAM's voting position for their fund. 2022 was the first time this right was exercised by one of our clients. We enacted their wishes and voted their segregated funds differently to the RLAM recommendation.

Pooled fund clients

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 pooled funds. In 2021 and 2022, we conducted 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. We continue to review market developments in this area, along with demand from our clients, and may re-evaluate our position should adoption of split voting in pooled funds become viable.

We remain open to conversations with all our clients around our approach to voting and aim to work with them to agree a voting approach that works for them.

Vote disclosure

We think transparency is important. Our votes are disclosed in an online searchable database.[20] We proactively disclose the rationale for any votes against management. We do not routinely disclose our voting rationale when we vote in support of management, but we are happy to provide an explanation upon request.

17 Excluding our quantitative equity tilt funds or funds that passively track an index.

18 In shareblocking markets our shares would be blocked from any trading from the date we vote (typically 1-2 weeks before the AGM) until the day after the AGM. In these cases, we prefer to retain the ability to trade these shares and as such we typically do not vote them.

19 This includes a number of Scandinavian, Eastern European, North African and South American markets. It is becoming less prevalent in Europe but can still at times apply in Belgium, Austria, Portugal and Switzerland.

20 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.

Proxy voting research

We utilise the services of IVIS and Glass Lewis to provide voting information, highlight controversial ballot items, and provide a platform to execute our proxy votes. However, these voting services are there to inform only. We do not rely on external voting recommendations; we apply our own custom voting policies and we do not rely on auto-voting. Each vote is reviewed and manually submitted by a member of the Responsible Investment 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. Further information on the issues discussed can be found on page 41.

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 positions prior to a vote to ensure we are exercising our full voting power at shareholder meetings.

Where we identify issues or concerns with lending or recalling of stock prior to a vote, this is investigated by our Investment Support Team to ensure we can execute our full voting rights. There were no stock lending issues identified in 2022.

Bondholder voting

As a result of RLAM's larger-than-average exposure to secured and highly covenanted bonds, we tend to have 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 investments 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.

Regulatory Compliance

We operate in a highly regulated environment, and so changes in laws and/or regulation may restrict or impact our ability to do business. We must remain compliant with applicable regulations in the markets where we operate. 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. Once regulatory change is identified and assessed, we work with our regulatory change team and the impacted business units to implement changes to our business to meet any new regulatory requirements. The business changes required to meet new regulations can be wide-ranging, from highly technical regulatory transaction reporting to product and legal changes, or new marketing and disclosure requirements.

There has been significant regulatory focus and attention on responsible investing in recent years. Significant new pieces of ESG-related regulation have been introduced in Europe and further regulations in the UK are imminent. Increasing demand for ESG investing solutions has seen a rapid rise in recent years, which has led to growing scrutiny and regulatory pressure. For the most part, the regulations have been focused on increasing transparency, improving consumer protection and reducing mis-selling risks.

Regulatory divergence is becoming a significant challenge as each jurisdiction adopts different governance and labelling frameworks, as well as divergent terms, definitions and taxonomies

In 2022 RLAM was proactive in implementing change activity to meet new and incoming ESG regulation. RLAM has operations in the UK, with collective investment fund ranges domiciled in the UK and Ireland, and has funds registered for sale in Switzerland, Singapore and Germany. We are mostly impacted by EU and UK regulations, including:

- EU Sustainable Finance Disclosure Regulation (SFDR)
- EU Taxonomy
- UK Task Force for Climate-Related Financial Disclosure (TCFD)
- UK Sustainable Disclosure Regulation (SDR)

In relation to SFDR and TCFD we have been working to build technology solutions to meet disclosure requirements and help us to better integrate the required ESG indicators and climate metrics into our firm and fund-level data, tools, reports and decision making. We have also been working to update fund-level regulatory documentation in line with the regulatory requirements.

As with all regulation, we seek to be a helpful partner to industry bodies and regulators and, as an example, we are providing input into the discussion on the UK's Sustainability Disclosure Requirements (SDR) as a member of the Disclosures and Labels Advisory Group (DLAG).

Managing Our Business

Our environmental impact

We cannot aim to be a market-leading responsible investment manager and engage effectively with the companies that we invest in if we do not apply the same principles to our own business.

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.

Royal London has made a number of climate pledges to reduce our carbon emissions as part of overall climate commitments.

- We're aiming to achieve net zero in our direct operational emissions by 2030.
- We'll reduce our internal paper use by 90% and external paper use by 50%.
- We've moved over 2,000 colleagues to a new energy-efficient workplace in Alderley Park, Cheshire.
- We continue to send zero waste to landfill and will reduce our total waste by 50% by 2025.
- We're now sourcing 99% renewable electricity across our offices, well ahead of target.
- We're working in partnership with Mitie to reduce our waste and energy use even further.
- We'll halve our company car emissions by 2025, through travelling less and switching to all-electric vehicles.
- Since 2020 we achieved carbon neutrality in our operational energy use through carbon offsetting. We have an action plan to reduce our need to offset year on year.
- We'll maintain a 50% reduction in our rail and air business travel carbon emissions from 2021 onwards.

You can read more about the other environmental initiatives designed to reduce our environmental impact in the 2022 RLMIS Annual Report.

Use of external suppliers

Royal London has a Procurement & Third-Party Management policy, which sets clear expectations on various areas of supplier oversight such as due diligence and how we govern our relationships. Part of our supplier selection due diligence process is to review risks, and supplier approaches to areas such as modern slavery, diversity and inclusion, and ethical treatment of staff.

We have a Supplier Code of Conduct that outlines our expectations (which are underpinned by the Universal Declaration on Human Rights, the ILO Core Conventions on Labour Standards and in line with the United Nations Sustainable Development Goals). We ensure that suppliers agree to this prior to entering into contracts with them.

We request disclosure from suppliers with regards to modern slavery during the life of their contract, and through supplier governance, will also review and challenge them in other areas such as living wage and their gender pay gap reporting. This will depend on the supplier type, and the work they do for us. We share relevant policies and expectations with our suppliers (e.g. Health and Safety, Anti-Bribery) and will review their own approaches (where relevant) to ensure they are in line with ours.

Diversity and inclusion

We have strengthened and emboldened our diversity and inclusion strategy over the last 12 months, also progressing Royal London Group's three-year positive action plan. As part of this, we are proud to be progressing our commitments made under the HMT Women in Finance Charter and the Race at Work Charter. We are also proud to be a Disability Confident Employer.

Our Diversity and Inclusion (D&I) Taskforce has been an integral part of this work. It is made up of representatives from across Royal London's businesses and ensures a range of colleague voices shape and drive our D&I strategy and positive action plan.

Our four inclusion networks also play a key role here. Led by colleagues, for colleagues, our inclusion networks collaborate with each other and align their activities with our central diversity and inclusion action plan to maximise their impact across Royal London. We encourage all colleagues to join our networks to demonstrate active support and allyship and we're delighted to have over 1,000 individual members.

Women's Network

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

REACH Network

The REACH 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.

DAWN

Our network which is focused on enabling disability confidence at Royal London.

Over the past 12 months, our Group inclusion networks have held 26 events for colleagues, published more than 40 articles, newsletters and Yammer posts and helped shape and launch our positive action programmes, including our career confidence programme for 150 colleagues and our inclusion networks mentoring programme which matched over 85 mentoring partnerships.

We publish externally on three areas:

- Annual Report & Accounts contains updates on Diversity and Inclusion
- Gender Pay Gap annual reporting
- HMT Women in Finance annual reporting.

Gender pay gap

We prepare a Gender Pay Gap eport showing both Royal London Group and RLAM figures each year and we are determined to take action to continue to reduce our gender pay gaps. We know it won't happen overnight, but we're working diligently to make changes that have a lasting impact on the business.

Our Gender Pay Gap report shows the gaps across our business, outlines why we have these gaps and sets out what we are doing to address them. By understanding the gaps, we can better focus our attention on the initiatives that will make a real difference.

Please refer to the following link to our Gender Pay Gap Report 2022

Royal London – 2022 Gender Pay Gap Report.

Governance

Royal London Asset Management (RLAM) is a fully owned subsidiary of the Royal London Mutual Insurance Society (RLMIS) and a part of the Royal London Group. RLAM has a board that includes three independent non-executive directors, and one non-executive director from Royal London.[21] The board of RLAM delegates authority for certain activities to the RLAM Executive Committee. There are regular meetings between Royal London and RLAM where the former may be an asset owner (i.e. representing those clients investing in Royal London products such as the Governed range) – these include our regular Investment Committee and Group Sustainability Forum. There are other meetings where Royal London acts as our parent such as Strategy & Planning sessions.

We are regulated by the FCA and comply with the Senior Managers Certification Regime (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

The Royal London Mutual Insurance Society (RLMIS)

Our largest client is our parent company, RLMIS. We manage approximately £100 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.

Many Group customers invest in funds managed by RLAM, including the flagship Governed range, managed by our Multi Asset team. We are fully committed to supporting Royal London as it looks to help investors understand how ESG factors are reflected in their pensions.

You can read more about RLMIS, its investment strategy and governance in the RLMIS Annual Report, which is available here.

All of our other clients can be divided into two segments: institutional and wholesale.

Institutional

RLAM grew from a predominantly in-house insurance asset manager to a viable choice for a wide range of clients, initially through working with pension schemes looking for fixed income solutions, but today working with a wide range of institutional clients to deliver tailored solutions to meet their specific needs.

As well as a range of pooled investment products covering all major asset classes, we provide segregated solutions to meet specific objectives. Our institutional business development team and fund managers understand that different institutional clients face different challenges that require different approaches and solutions.

We manage £23 billion in assets for approximately 250 external institutional clients. These include local authorities, charities, universities, corporate pension schemes, and insurance companies.

The majority of these clients are UK-based, with a growing 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 Responsible Investment and investment teams are 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.

21 As of 31 December 2022.

Wholesale

Along with our parent, RLAM looks to work closely with advisers, as we believe it helps deliver better outcomes and experiences for the end investor. From one-stop Multi Asset solutions to funds that focus on specific areas of specific markets, we focus on providing investments that IFAs, wealth managers and stockbrokers can use for their clients.

We manage approximately £24 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.

Where appropriate, RLAM funds are also 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.

International

While our heritage is rooted in the UK, we continue to expand our business internationally and have ambitions to grow this significantly. At present we work with a number of clients in Australia and support significant clients in France, Denmark and Japan. To support these goals, we have registered our funds in key distribution destinations including Switzerland, Singapore and Germany.

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, investment performance and revenue generation. We have a scorecard to evaluate and track our business performance, which considers a wide range of metrics.

The continued development of RLAM's responsible investment capabilities is a key pillar of our strategy. 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.

We expect our investment professionals to evaluate and continually monitor the impact of ESG on investment risk and to document their approach to this in their desk procedures. 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 strategy. This expectation supplements remuneration incentives for investment specialists and the wider senior population, which are tied to the long-term investment 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, within the accepted risk framework for each fund.

Training and education

Our investment teams receive a mix of practical on-the-job and formal training on stewardship and responsible investment. Ongoing engagement and interaction between our investment teams and ESG specialists provide 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 investment teams, which provide an opportunity to highlight specific ESG risks or opportunities within the investment fund and discuss 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 Responsible Investment team. Specific training on issues relating to climate risk and the path to net zero will continue to be undertaken.

Risk management and monitoring

RLAM's risk management framework is integrated into our business processes. Organisational accountability covering the board, committees, functions and individuals are set out within terms of reference for the board and committees, as well as in policies and procedure documents. The RLAM Holdings Board has delegated responsibility to the RLAM Holdings Risk & Capital Committee to oversee the overall risk management framework and to ensure that the interests of the RLAM Group's stakeholders and clients are properly protected through the application of effective risk and capital management frameworks.

RLAM applies the Royal London Group Risk Management System (RMS) as its framework for managing risks within our chosen risk appetite. It provides a holistic and consistent way to identify, measure, manage, monitor and report on the risks faced by RLAM and its clients. Components of the RMS such as the risk strategy, risk appetite and policies set out the objectives, direction, limits and tolerances within which the boards expect the business to operate. Other components, such as risk control self-assessments (RCSAs) and risk event reporting, support the identification, assessment, monitoring, reporting and control and remediation of RLAM's risks. As part of RLAM's risk management approach we also monitor emerging risks, geopolitical developments, as well as the overall market landscape. This supports timely identification of any market-wide or systemic issues impacting RLAM and its clients and supports our commitment to stewardship and responsible investment.

The Investment Risk team carries out 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.

We recognise the rapidly evolving nature of responsible investing and stewardship, and as a result we are continuously reviewing and upgrading our approach to how we recognise and manage the impact it has on our business. As part of this, in 2022 we undertook the following activities to better manage our strategic and investment ESG risk:

- Reviewed new and emerging ESG risks in our Emerging Risks Forum
- Produced and disclosed our second TCFD report (Climate Report) which explains how we monitor and manage climate risk
- Improved and enhanced our in-house data and technology systems, giving fund managers, analysts and the Responsible Investment team ongoing access to issuer-level and fund-level ESG data and analysis, including company and fund-level data on Principal Adverse Impacts
- Improved our controls and four-eye checking processes for ESG information and data for public annual and quarterly client reporting
- Worked with external specialists to help us review our responsible investment operating model, to ensure that we have the appropriate business capabilities and structure to enable us to respond to market ESG demands effectively
- Worked with consultants to develop a climate transition action plan and advise on the activities we need to undertake to help meet our net zero climate commitments.

Risks reviewed in 2022

Emerging risks are reviewed during the year through an Emerging Risks Forum comprised of senior leaders. This year the risks reviewed included:

- **Climate risk:** Monitoring and managing climate risk has remained an ongoing priority for us. We have updated our climate risk appetite statement to include a wider scope of risks. The aim of doing this is to mitigate our exposure to the financial, strategic, reputational, regulatory and commercial risks arising from climate change. A more detailed account of climate risk management can be found in our Climate Risk Policy and Climate (TCFD) Report.
- **International ESG regulatory divergence:** ESG regulation divergence is becoming a challenge with responsible investment regulatory approaches being developed in the EU, UK, US and Asia. Within the EU, each country is taking a different approach, with additional layering of reporting and marketing requirements being introduced. We continue to work with regulators and with industry bodies to input into and help shape responsible investment regulation for the benefit of the consumer.
- **Artificial Intelligence (AI):** Data is significant currency, and can be powerful in assessing and determining alpha opportunities, screening for client opportunities or helping support responsible investment implementation. The availability of open-source AI systems which can process information expediently, write content and hunt for opportunities, has the potential to challenge existing norms and operating models. We continue to work on new technological developments and monitor and keep abreast of what of new technology, data sources and data that we perceive has benefit to our business or to our clients.
- **Personalisation and customisation:** The market is increasingly seeing demands for more personalised and customised needs, particularly in relation to responsible investment considerations inclusive of climate criteria. There is a growth in demand for individual separately managed accounts and desire for a more tailored and customised solutions. Efficiencies and cost benefits may erode with the advent of new technology that can support customisation and operational simplicity at scale. We continue to monitor developments and evaluate opportunities.
- **Blockchain / Distributed Ledger technology:** The financial services industry continues to explore and evaluate the utilisation of blockchain and distributed ledger technology. This technology can bring greater efficiency and speed to the investment value chain; for example, by moving to real-time settlement. We continue to monitor developments and participate in industry forums and working parties.
- **Geopolitical risk:** Alongside the significant post-Covid supply chain disruption there has been significant geopolitical risk in 2022, with the war between Ukraine and Russia, rising tensions between China and Taiwan alongside similar levels of escalation between Japan and North Korea. As discussed throughout this report, the impact of the war in Ukraine continues to precipitate inflation across the world, with other tensions being monitored but not resultant in further escalation. We continue to closely monitor geopolitical risk, the supply chain impact, and the broader humanitarian considerations.

Case study: Russia and the war in Ukraine

RLAM recognises that the Ukraine invasion is first and foremost a geo-political event.

We have a responsibility to investors in our funds and have complied with all restrictions and sanctions issued by relevant authorities as these have been introduced.

Russian exposure in RLAM portfolios

At the time of the Russian invasion, we examined the extent of Russian exposure across our portfolios – in terms of direct exposure, but also Russian companies listed in other markets, companies with significant revenues derived from Russia, and companies with Russian cross-holdings.

RLAM had no exposure to Russian companies in our active funds such as global equities, sterling credit, and sustainable funds. We did have a small amount of exposure to Russia and Ukraine through passive and quantitative fund exposures. These were largely held in our Emerging Markets ESG Equity Tracker and also in some of our tilt funds. Total Russian exposure accounted for less than 0.1% of RLAM's total assets under management at the end of February 2022.

In the case of our equity tilt funds, these did not invest directly in Russian markets. The funds have an objective to produce index-like returns with portfolios that build in ESG considerations, and specifically target a lower carbon intensity than the benchmark. Two of the funds had a small amount of exposure because their equivalent index contained Russian companies listed on local markets in the UK and the US.

As part of the conversion from traditional index tracker funds to tilt funds in 2021, we had already reduced our holdings in Russian companies due a variety of factors, notably poor performance on ESG factors like governance and climate. In January 2022, we further reduced this exposure as those ESG concerns increased. In late February and early March 2022 the tilt funds sold this minimal exposure to Russian companies wherever possible – with the only holdings retained being those we were blocked from trading by local exchanges following the invasion.

Direct exposure such as Russian listed or Russian companies with overseas listings are relatively straightforward to identify and sell or block from trading. Of course, many companies derive some of their business and income from Russia, due to the interconnected nature of the global economy. We put in place controls to flag any trades in companies that were generating a material proportion of their revenues from Russia. This gave the investment teams the opportunity to review the company's exposure before executing the trade.

You can read more about our engagement with companies regarding Russia's invasion of Ukraine on page 26 in the Engagement section of this report.

Cyber security and sanctions

At an operational level, the Royal London Group and RLAM were conscious of the increased threat of retaliatory action from sanctions imposed on Russia and in particular the increased threat to cyber security. We worked closely with our external supplier and the relevant authorities in the UK government to ensure that we were protecting our data and systems.

When looking at sanctions, we use an industry solution to assist in identifying, implementing and monitoring sanctions. This solution checks portfolio holdings, clients and third-party relations for compliance with national and international sanction and embargo directives. At a corporate level, we adhere to the UK HM Treasury's sanctions regime, and we refer to the consolidated list. In addition, we include the relevant financial sanction lists. To ensure that no trades in sanctioned companies are made, we keep portfolio managers up to date with sanctioned names, but also hard-coded our systems so that if an order in such a name is mistakenly placed, this order is blocked from transmission to the centralised dealing desk.

Managing conflicts of interest

RLAM is 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 conflicts of interest policy that all members of staff are required to read and adhere to. RLAM's Board has overall responsibility for ensuring effective management for the prevention of conflicts of interest. RLAM's senior management are responsible for ensuring that RLAM systems, controls and procedures are adequate to identify, manage and monitor conflicts of interest. They also have responsibility for ensuring that RLAM staff are aware of the aspects of the policy relevant to them.

RLAM's Board reports directly to the RLMIS Board, which is ultimately accountable for the management of risk within the Group and reviewing the effectiveness of internal controls, including those related to conflicts of interest. Failure to adhere to our policies may 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 include instances where:

- There is a conflict between the interests of RLAM (as a legal entity, or an individual connected to RLAM or the Royal London Group), and the duty RLAM owes to a client; or
- There is a conflict between the interests of two or more RLAM clients, to whom RLAM owes in each case a fiduciary duty.

The Conflicts of Interest Policy provides 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, portfolios and funds confidential client information, additional employment or consulting activities, new product launches, execution, and research costs, e.g., inducements including non-monetary benefits.

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 update is presented to the RLAM Business Risk Committee on a quarterly basis. The update includes information on levels of Personal Dealing and corporate entertainment across RLAM. 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 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.

The policy is updated regularly by the RLAM Risk and Compliance team. For more information on our approach to managing Conflicts of Interest, please refer to our Conflicts of Interest Statement on our website.

In 2022 we had no new material conflicts of interest requiring disclosure.

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 of companies we invest in. 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 and our annual Climate (TCFD) Report, as well as on our website through blog posts, articles, webinars, and press comments. In addition, we disclose our PRI Assessment results on our website.

Our Responsible Investment Policy, Controversial Weapons Policy, Climate Risk Policy, and Proxy Voting Policies are reviewed regularly by the RLAM Investment Committee and published on our website www.rlam.com. In addition, our comprehensive online database discloses our proxy votes monthly in arrears, explaining where we vote against management or abstain.

Our clients typically receive quarterly reports which provide details on how we have implemented responsible investment and stewardship across RLAM funds and/or within their segregated fund. These reports typically 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 provide climate metric data to clients upon request, and from June 2023, we will provide clients with fund-level TCFD disclosures.

We often meet to discuss ESG trends, risks and opportunities with clients, and we make our investment staff and Responsible Investment team available to provide their expert insights.

We are happy to respond to any specific requests for information on our stewardship and responsible investment activities from clients or other stakeholders.

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 and training, as well as better responsible investment and ESG tools and analysis. We have policies and procedures in place regarding proxy voting, ESG integration, engagement, exclusions, conflicts of interest, personal account dealing, execution and allocation, and gifts and benefits. Our compliance policies and procedures are maintained by the Risk and Compliance team and periodically subject to review by both compliance and internal audit.

We have continued to review and further enhance our controls to better verify and gain comfort over the quality of our ESG data and stewardship disclosures. In 2022, we identified an error in last year's Stewardship and Responsible Investment Report after it had been published. We treated this as a risk event, undertook an extensive exercise to understand the cause of the error, and recorded findings and actions to address the issue and prevent it from happening again. We found that the issue was the result of human error and had not been picked up despite several layers of document review and sign off. We have since provided more training to staff, increased our four-eye checks on data, and changed the timing of our data checking procedures. The report was updated and re-published with a note to explain the errors. We also notified the Financial Reporting Council (FRC).

Appendices

Appendix 1: Record of Company Engagement

A2A SpA

A2Dominion Housing Group Ltd

AA Ltd/United Kingdom

ABB Ltd

Abbott Laboratories

AbbVie Inc

Accent Group Ltd/LN

Accenture PLC

Adobe Inc

ADT Inc

Advanced Drainage Systems Inc

Advanced Micro Devices Inc

Agilent Technologies Inc

Ahlsell AB (publ)

Akelius Foundation

Alibaba Group Holding Ltd

Alphabet Inc

Amazon.com Inc

Amphenol Corp

Anadolu Efes Biracilik Ve Malt Sanayii AS

Anchor Hanover Group

Anglian Water Group Ltd

Anglo American PLC

AP Moller - Maersk A/S

APCOA Group GmbH

APERAM SA

Apple Inc

Applied Materials Inc

ARD Holdings SA

Ashmore Group PLC

Ashtead Group PLC

ASML Holding NV

Aster Group Ltd

Aston Martin Lagonda Global Holdings PLC

AT&T Inc

Atlantia SpA

Avista Corp

Aviva PLC

Axalta Coating Systems Ltd

Axfood AB

BAE Systems PLC

Baker Hughes Co

Ball Corp

Bandai Namco Holdings Inc

Bank Central Asia Tbk PT

Bank of America Corp

Barclays PLC

Beazley PLC

Bellway PLC

Berkeley Group Holdings PLC

Berkshire Hathaway Inc

BEWi ASA

Beyond Housing Ltd

BHP Group UK LTD

Biogroup SELAFA

BK LC Lux MidCo Sarl

Boku Inc

Boston Mayflower Ltd

BP PLC

BPHA Ltd

Brambles Ltd

Bridgestone Corp

Bristol-Myers Squibb Co

Broadcom Inc

Bunzl PLC

Casino Guichard Perrachon SA

Catalent Inc

Cemex SAB de CV

Centrica PLC

Charles Schwab Corp/The

Chelmer Housing Partnership Ltd

Chevron Corp

Church Commissioners for England

Cisco Systems Inc

CK Hutchison Holdings Ltd

Clarion Housing Group Ltd

Clarkson PLC

Clearway Energy Group LLC

CLP Holdings Ltd

Coca-Cola Co/The

Colisee Group SASU

Comcast Corp

Compass Group PLC

ConocoPhillips

Constellation Software Inc/Canada

ConvaTec Group PLC

Costco Wholesale Corp

Cross Keys Homes Ltd

CSX Corp

CVS Health Corp

Danaher Corp
Darling Ingredients Inc
Dechra Pharmaceuticals PLC
Derwent London PLC
Deutsche Post AG
Diploma PLC
DNB Bank ASA
DNO ASA
DP World Ltd/United Arab Emirates
Drax Group PLC
DS Smith PLC
Dufry AG
DWR CYMRU CYFYNGEDIG
E.ON SE
East Japan Railway Co
East Midlands Housing Group Ltd
Eastman Chemical Co
Ecolab Inc
Econet Global Ltd
Edwards Lifesciences Corp
Electricite de France SA
Electricity Supply Board
Eli Lilly & Co
Elia Group SA/NV
Elisa OYJ
EMS-Weser-Elbe Versorgungs- und Entsorgungsverband Beteiligungsgesellschaft mbH
Enel SpA
Enexis Holding NV
Engie SA
Equinor ASA
Eskmuir Properties Ltd
Essentra PLC
EssilorLuxottica SA
Euromoney Institutional Investor PLC
Eversource Energy
Exxon Mobil Corp
FactSet Research Systems Inc
Federal Republic of Germany
Ferguson PLC
FGP TopCo Ltd
First Quantum Minerals Ltd
Flagship Housing Group Ltd
FLUVIUS System Operator cvba
Fomento Economico Mexicano SAB de CV
FUJIFILM Holdings Corp
Future PLC
Futures Housing Group Ltd
Games Workshop Group PLC
GEA Group AG
Gecina SA
General Dynamics Corp
General Electric Co
Gentoo Group Ltd
Genus PLC
GFL Environmental Inc
Glas Cymru Holdings Cyfyngedig
Glencore PLC
GlobalData PLC
Go-Ahead Group Ltd/The
Goldman Sachs Group Inc/The
Grafton Group PLC
Grand Union Housing Group Ltd
Great Places Housing Group Ltd
Greensquareaccord Ltd
Greggs PLC
Grosvenor Group Ltd
GSK PLC
Guinness Partnership Ltd/The
Haitian International Holdings Ltd
Hastoe Housing Association Ltd
Hawaiian Holdings Inc
HDF UK Holdings Ltd
HeidelbergCement AG
Heimstaden AB
Hermes International
Hexagon Housing Association Ltd
Hikma Pharmaceuticals PLC
Hindalco Industries Ltd
Home Depot Inc/The
Home Group Ltd
Honeywell International Inc
Housing & Care 21
Housing Finance Corp Ltd/The
HSBC Holdings PLC
Hyde Housing Association Ltd
Iberdrola SA
ICADE
Imperial Brands PLC
Incommunities Treasury PLC
Informa PLC
IntegraFin Holdings PLC
Intel Corp
InterContinental Hotels Group PLC
Intertek Group PLC
Intertrust NV
Intuit Inc
Intuitive Surgical Inc
Iren SpA
Iron Mountain Inc
Jacobs Holding AG
Jaguar Land Rover Automotive PLC
JD Sports Fashion PLC
Jigsaw Funding PLC
Johnson & Johnson
JPMorgan Chase & Co

Karbon Homes Ltd
Kelda Holdings Ltd
Kemble Water Holdings Ltd
Kin & Carta PLC
Kinder Morgan Inc
Kingdom of Norway
Klepierre SA
KOC Holding AS
Koninklijke Boskalis NV
Koninklijke DSM NV
Kosmos Energy Ltd
Kubota Corp
Learning Technologies Group PLC
Legal & General Group PLC
Legrand SA
Liberty Latin America Ltd
Linde PLC
Liontrust Asset Management PLC
Livewest Homes Ltd
Lloyds Banking Group PLC
London & Quadrant
London & Quadrant Housing Trust
London Stock Exchange Group PLC
Lone Star Global Acquisitions Ltd
Longhurst Group Ltd
L'Oreal SA
Lowe's Cos Inc
LVMH Moet Hennessy Louis Vuitton SE
M&G PLC
Macquarie Group Ltd
Marshalls PLC
Marubeni Corp
Mastercard Inc
McCormick & Co Inc/MD
McDonald's Corp
Medtronic PLC
Meituan

Mercedes-Benz Group AG
Merck & Co Inc
Meta Platforms Inc
Microsoft Corp
Midland Heart Ltd
Mitchells & Butlers PLC
Moat Homes Finance PLC
Morgan Stanley
Naspers Ltd
National Express Group PLC
National Grid PLC
Nationwide Building Society
Natwest Group PLC
Nestle SA
NextEra Energy Inc
NIKE Inc
Ninety One PLC
Nordson Corp
Northrop Grumman Corp
Notting Hill Genesis
Novartis AG
Novo Nordisk A/S
Novo Nordisk Fonden
NVIDIA Corp
Ocado Group PLC
Olin Corp
Optivo
Oracle Corp
Orbit Group Ltd
Orsted AS
Otsuka Corp
Paradigm Housing Group Ltd
Paragon Asra Housing Ltd
Paragon Banking Group PLC
Parkland Corp/Alberta
Partners Group Holding AG
PayPal Holdings Inc

PCL Funding
Peabody Trust
Pearson PLC
Peel Group Ltd
Pennaf Ltd
Pennon Group PLC
Pension Insurance Corp Group Ltd
PepsiCo Inc
Pfizer Inc
Philip Morris International Inc
Ping An Insurance Group Co of China Ltd
Places for People Group Ltd
Places for People Homes Ltd
Platform Housing Group Ltd
Poplar Housing & Regeneration Community Association Ltd
Post Holdings Inc
Procter & Gamble Co/The
Prologis Inc
Prudential PLC
Punch Taverns Ltd
QUALCOMM Inc
Radian Group Ltd
Range Resources Corp
Reliance Industries Ltd
Reliance Steel & Aluminum Co
Rentokil Initial PLC
Republic Services Inc
Richmond Housing Partnership Ltd
Rightmove PLC
Rio Tinto PLC
Riverside Group Ltd/The
Roche Holding AG
Rolls-Royce Holdings PLC
RWS Holdings PLC

Safran SA

Sage Group PLC/The

Salesforce Inc

Samsung Electronics Co Ltd

Sanctuary Housing Association

Sanwa Holdings Corp

SAP SE

Saxon Weald Homes Ltd

Schneider Electric SE

Segro PLC

Sempra Energy

Severn Trent PLC

Shell PLC

Siemens AG

Smaakraft AS

Smiths Group PLC

Sony Group Corp

Southern Housing Group Ltd

Southern Water Capital Ltd

Sovereign Housing Association Ltd

Speedy Hire PLC

Spirax-Sarco Engineering PLC

SSE PLC

Standard Chartered PLC

Statkraft SF

Steel Dynamics Inc

Stonegate Pub Co Group Sarl

Stonewater Ltd

Stork Holdco LP

Sumitomo Mitsui Financial Group Inc

Suncor Energy Inc

Sunoco LP

Sustainable Communities for Leeds Finance PLC

Sylvamo Corp

Taiwan Semiconductor Manufacturing Co Ltd

TalkTalk Telecom Group Ltd

Talos Energy Inc

Tata Consultancy Services Ltd

Telenet Group Holding NV

Telereal Secured Finance Holdings Ltd

TerraForm Power Inc

Tesco PLC

Tesla Inc

Texas Instruments Inc

Thames Valley Housing Association Ltd

Thames Water Utilities Ltd

Thermo Fisher Scientific Inc

Thor Industries Inc

Together Housing Group Ltd

Topaz Solar Farms LLC

TopBuild Corp

Toronto-Dominion Bank/The

TotalEnergies SE

Town Centre Securities PLC

Toyota Motor Corp

Trinseo PLC

Tullow Oil PLC

Union Pacific Corp

UNITE Group PLC/The

United Airlines Holdings Inc

United Kingdom of Great Britain and Northern Ireland

United Parcel Service Inc

United Utilities Group PLC

UnitedHealth Group Inc

Uniti Group Inc

Valaris plc

Verbund AG

Verizon Communications Inc

Vermilion Energy Inc

Virgin Money UK PLC

Visa Inc

Vistry Group PLC

Volkswagen AG

Vonovia SE

Walmart Inc

Walsall Housing Group Ltd

WALT DISNEY CO/THE

Waste Connections Inc

Waste Management Inc

Wells Fargo & Co

Wessex Water Ltd

Westinghouse Air Brake Technologies Corp

Wheatley Housing Group Ltd

Whitbread PLC

Wilmington PLC

WM Housing Group Ltd

Wolters Kluwer NV

Wrekin Housing Group Ltd/The

Yorkshire Building Society

Yorkshire Housing Ltd

Appendix 2: Ownership and Structure

The Royal London Mutual Insurance Society Limited (RLMIS)

Royal London Asset Management Holdings Limited

- Royal London Asset Management Limited
- Royal London Unit Trust Managers Limited

Appendix 3: The UK Stewardship Code

Principles for asset owners and asset managers.

Purpose and governance	Page reference	
1. Purpose, strategy and culture	Foreword – Hans Georgeson	5
	About RLAM	6
	Managing our business	94
2. Governance, resources and incentives	Stewardship & responsible investment at RLAM	9
	Improving our ESG Tools & data	30
	ESG integration	45
	Governance	96
	Performance management and reward	97
3. Conflicts of interest	Managing conflicts of interest	101
4. Promoting well-functioning markets	Advocacy and public policy	42
	ESG integration	45
	Investor collaboration	90
	Risks reviewed	99
	Disclosure & Transparency	102
5. Review and assurance	Risk Management and monitoring	98
	Review and assurance	102

Investment approach	Page reference	
1. Client and beneficiary needs	Themes of engagement: 2022-2024	12
	Supporting our clients	96
2. Stewardship, investment and ESG integration	Stewardship & responsible investment at RLAM	9
	Engagement	11
	ESG Research	27
	Voting	31
	ESG integration	45
3. Monitoring managers and service providers	Proxy voting research	93
	Risk Management and monitoring	98
	Proxy voting platform and research	41

Engagement	Page reference	
1. Engagement	Engagement Activities	12
	Our Approach: Engagement	87
2. Collaboration	Investor collaboration	90
3. Escalation	Escalation and public comments	89

Exercising rights and responsibilities	Page reference	
1. Exercising rights and responsibilities	Voting	31
	Our Approach: Voting	91

Appendix 4: International Stewardship Codes

While RLAM is not currently a signatory to other international Stewardship Codes we support the principles of these and have outlined below how we consider ourselves in alignment with these codes.

Australia: FSC Standard 23 – Principles of Internal Governance and Asset Stewardship[7]	Page reference	
1. Organisation & Investment Approach	About RLAM	6
	Stewardship & responsible investment at RLAM	9
	ESG integration	45
	Performance Management & Reward	97
	Training & Education	98
	Appendix 2: Ownership and structure	107
2. Internal governance	Our Approach: Engagement	87
	Our Approach: Voting	91
	Governance	96
	Risk Management and monitoring	98
	Managing conflicts of interest	101
	Review and assurance	102
3. Asset Stewardship	Stewardship & responsible investment at RLAM	9
	Engagement	11
	ESG Research	27
	Voting	31
	ESG integration	45
	Our Approach: Engagement	87
	Our Approach: Voting	91

22 https://www.fsc.org.au/web-page-resources/fsc-standards/1522-23s-internal-governance-and-asset-stewardship

Japan Stewardship Code[8]	Page reference	
1. Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it	Our Approach: Engagement	87
	Our Approach: Voting	91
	RLAM Responsible Investment Policy	112
2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities	Managing conflicts of interest	101
3. Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities	Stewardship & responsible investment at RLAM	9
	Engagement	11
	ESG Research	27
	Voting	31
	ESG integration	45
4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies	Engagement	11
	Our Approach: Engagement	87
5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.	Voting	31
	Our Approach: Voting	91
	RLAM Global Voting Policy (ex UK)	112
6. Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.	Our Approach: Engagement	87
	Our Approach: Voting	91
	Supporting our clients	96
	Disclosure & Transparency	102
7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.	Stewardship & responsible investment at RLAM	9
	ESG Research	27
	ESG integration	45
	Training & Education	98

23 https://www.fsa.go.jp/en/refer/councils/stewardship/20200324/01.pdf

Appendix 5: The UN Principles of Responsible Investment

Principle	Page reference	
1. We will incorporate ESG issues into investment analysis and decision-making processes.	About RLAM	6
	ESG integration	45
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.	Stewardship & responsible investment at RLAM	9
	ESG integration	45
	ESG Research	27
	Engagement	11
	Voting	31
	Governance	96
	Supporting our clients	96
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Engagement	11
	Our Approach: Engagement	87
4. We will promote acceptance and implementation of the Principles within the investment industry.	Stewardship & responsible investment at RLAM	9
	Our Approach: Engagement	87
	Advocacy	42
5. We will work together to enhance our effectiveness in implementing the Principles.	Stewardship & responsible investment at RLAM	9
	Investor collaboration	90
6. We will each report on our activities and progress towards implementing the Principles.	Disclosure & Transparency	102

Useful Links

FRC – UK Stewardship Code 2020
FRC – UK Stewardship Code Signatories
PRI – Definitions and terminology
RLAM – Climate Risk Policy
RLAM – Conflicts of Interest
RLAM – Our Views
RLAM – Sustainable Finance Disclosure Regulation (SFDR) web page
RLAM – Responsible Investment web page
RLAM – Sustainable Investing web page
RLAM – Responsible Investment Policy
RLAM – UK Voting Policy & Global Voting Policy
RLAM – Vote Disclosure Website

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Ref: PDF RLAM WEB 0002

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