Stewardship Report 2023

The Royal London Mutual Insurance Society Limited

Asset owner approach to meeting the UK Stewardship Code 2020 requirements.
This report was submitted to the Financial Reporting Council in October 2024.

Contents

Foreword from our Group Chief Executive Officer

At Royal London, our Purpose – *Protecting today, investing in tomorrow. Together we are mutually responsible.* – explains who we are and why we exist as an organisation. We look to help our customers build the financial resilience they need to retire, and to protect themselves and their families along the way. We also want to play our part in moving fairly to a sustainable world, while strengthening the mutual choice for customers.

We are proud to be a customer-owned mutual. It means we can take a long-term view without the shareholder pressures that many of our competitors face. It also helps us define the role we want to play, at a time when the appetite for companies to act responsibly has rarely been greater.

Operating and investing responsibly

As the UK's largest mutual life, pensions and investments provider[1], our commitment to acting and investing responsibly is critical. Being a responsible steward of the investments we manage on behalf of customers and clients is central to delivering outcomes that meet their needs.

The Royal London Group also uses its collective strength to support stewardship and engagement activity. As an asset owner, we actively use the rights we gain from holding shares in companies to influence positive change. Our asset management business, Royal London Asset Management, undertakes engagement activity on Royal London's behalf, exercising our voting rights and meeting with management to encourage better outcomes.

Focusing on what matters

Our stewardship and engagement activities focus on issues we feel are most material to our investments and, across all our activities, we consider two priority themes: climate change and inclusion. Aligned with these themes, we deepened our approach in 2023 by introducing specific engagement priorities for policymakers, regulators and industry groups. We engage to support clarity on how the UK intends to reach net zero, on how it seeks to unlock investment opportunities that could support the net zero transition, and on how combining public and private sector finance could assist social or environmental goals.

While conscious of the role we have in supporting the move to a sustainable world, businesses alone cannot deliver the systemic transformation needed. In particular, it is disappointing that advances towards global climate goals have not been faster. We would like to see governments support policies that accelerate progress and, as the new UK government sets out its priorities on energy and climate, we will continue to engage with policymakers – urging them to deliver on their commitments so that we can deliver on ours.

As a signatory to the UK Stewardship Code 2020, we demonstrate our dedication to continuous improvement and transparency against the highest standards. The Financial Reporting Council has announced significant revisions to the Code, identifying priority areas for review. Royal London participated in the roundtable discussions that helped determine these areas – and as this review continues, we look forward to playing our part in driving better stewardship outcomes.

Barry O'Dwyer
Group Chief Executive Officer

1. Based on total 2022 premium income. ICMIF Global 500, 2024.

Introduction

About Royal London

The Royal London Mutual Insurance Society Limited (RLMIS) is part of the Royal London Group (Royal London or Group), the UK's largest mutual life, pensions and investment company[1]. For over 160 years, we have helped customers to protect themselves and their loved ones against potential life shocks, to save for the future, and to manage their wealth in later life.

Royal London looks after 8.6m life and pension policies and has £162bn of assets under management (AUM) as at 31 December 2023, £118bn of which is held on behalf of RLMIS members and customers.

Royal London Asset Management Limited, a wholly owned indirect subsidiary of RLMIS, manages over 95% of RLMIS' assets. While part of the Group, Royal London Asset Management Limited is managed separately and overseen by its own Board. The remaining approximately 5% of RLMIS' assets are managed by 29 external asset managers, seven of which are 'key' asset managers for RLMIS as they hold over £100m each on our behalf. RLMIS oversees and monitors our asset managers' activities and performance in line with the arrangements described under Principle 2 (Governance, resources and incentives) and Principle 8 (Monitoring managers and service providers).

In 2023, our monitoring activities satisfied us that our asset managers met the standards we require, including in relation to stewardship. Royal London Asset Management describes its stewardship activity separately within its Stewardship and Responsible Investment Report 2023, available at www.rlam.com.

About this report

This report sets out how we continue to comply with the 12 principles of the Financial Reporting Council's (FRC) UK Stewardship Code 2020[2]. It describes the stewardship activities of RLMIS between 1 January and 31 December 2023, including progress with ongoing initiatives, and it also takes a forward look at initiatives planned for the coming years.

The FRC regulates UK auditors, accountants and actuaries in the public interest. Its mission is to promote transparency and integrity in business. Within the UK Stewardship Code 2020 (the Code), the FRC defines 'stewardship' as:

"the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

This definition looks beyond the traditional view of stewardship as the act of engaging with investee companies and exercising voting rights, and the Code introduced a range of new requirements, including:

- a focus on engagement activity and outcomes
- the assignment of responsibilities to asset owners, with limits on delegation
- the integration of environmental, social and governance (ESG) factors into investment decisions
- the need for reports to be fair and balanced, with reporting on an 'apply and explain' basis.

We are proud that RLMIS has been recognised as a signatory to the Code since 2022, which we maintained in 2023. Royal London Asset Management Limited has held signatory status since 2021, which it maintained in 2022 and 2023.

1. Based on total 2022 premium income. ICMIF Global 500, 2024.
2. For further detail of the UK Stewardship Code 2020, see www.frc.org.uk.

Principle 1

Purpose, strategy and culture

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Our Purpose

Being a mutual is at the heart of Royal London's Purpose: '***Protecting today, investing in tomorrow. Together we are mutually responsible.***' This guides our strategy, shapes our culture and informs our long-term response to trends that influence members, customers, clients, financial advisers and the world around us.

This Purpose provides a clear ambition for Royal London, and sets out the positive outcomes that we want to achieve by using our mutuality for good:

Helping build financial resilience

- Ensure our customers do not have to worry about their finances in times of ill health or bereavement
- Help customers to feel confident about making decisions on their long-term savings and investments
- Support our customers to have sufficient savings to enjoy the retirement they planned
- Maximise financial inclusion and reduce vulnerability by collaborating with partners.

Moving fairly to a sustainable world

- Provide opportunities for customers to use their savings and investments to make a positive impact on climate change, the environment and society[1]
- Help build a world and society that customers will look forward to retiring into
- Use our influence to champion the delivery of net zero in a way that is fair and sustainable[1]
- Ensure customers and communities have the resilience to adapt and thrive as we transition to a sustainable world.

Strengthening the mutual choice for customers

- Invest in improving our customer offer by running a profitable and sustainable business
- Be cost-efficient, so that customers receive the financial benefits of our mutuality
- Offer a sustainable alternative to companies run for the benefit of shareholders
- Do what is right for members, customers and for wider society.

Our strategy

Our strategy of being an ***insight-led, modern mutual, growing sustainably by deepening customer relationships***, reflects the world we live in and the trends that shape our customers' changing needs.

1. This is reflective of the Royal London Group's long-term ambition. It does not guarantee that a product will try to meet this outcome individually – if you are seeking a particular outcome, always check the product documentation to ensure it will meet your needs.

Our business

Royal London offers protection, long-term savings and asset management solutions in the UK and Ireland:

UK

Providing pension and protection propositions to customers and employers, primarily through independent financial advisers

Asset management

Providing investment propositions to Royal London's life and pensions customers and to external institutional and wholesale clients, primarily through intermediaries

Ireland

Providing pension and protection propositions to customers through brokers

Royal London comprises RLMIS and its subsidiaries, which include the entities that make up the Group's asset management division, Royal London Asset Management.

Royal London Asset Management

While we invest across a range of asset managers on behalf of our customers and members, over 95% of RLMIS' investments are managed by Royal London Asset Management, which undertakes stewardship and engagement activity on behalf of RLMIS as well as on behalf of its own external customers and clients.

Royal London Asset Management is one of the UK's leading asset managers[1] and, as such, collaboration between RLMIS and our asset management business helps us to influence the companies in which we invest and the wider industry, supporting the delivery of Royal London's Purpose outcomes.

Our culture

Our values

Our unique culture is underpinned by four 'Spirit of Royal London' values: We are Empowered, We are Trustworthy, We Achieve and We Collaborate. These help shape our People Promise of providing somewhere to work that is inclusive, responsible, enjoyable and fulfilling.

Our mutuality

Our mutual status means that when Royal London does well, so do our members. Since 2007, we have shared the proceeds of our success with eligible customers through our ProfitShare scheme. The vast majority of our eligible customers are also members and, because we are a mutual, they directly benefit from sharing in the returns we generate. We use our profits to improve our propositions and services, maintain our financial strength and support social impact initiatives.

Our Annual General Meeting (AGM) provides an important opportunity for members to learn about Royal London's financial and business performance, and to vote on resolutions proposed by the Board. Our members are encouraged to take an active part, and voting on resolutions helps to ensure that the interests of Royal London are aligned with those of members. Most of Royal London's colleagues are also members through our in-house pension arrangements.

We use the information our customers share with us to help them build the financial resilience they need, and to protect themselves and their families along the way. You can read more about how we engage with their needs in Principle 6 (Client and beneficiary needs).

1. Based on UK total sales. The Pridham Report, 2021 – 2023.

Investment Philosophy and Beliefs

Our Purpose and strategy drive our 'Investment Philosophy and Beliefs', which is a framework we use to guide how we invest our customers' money on their behalf.

Through our Investment Philosophy and Beliefs, we recognise our customers' objectives and risk profiles, investing in well-diversified portfolios. Everything we do is for the long-term benefit of our members and customers, and our investment philosophy can be summarised as:

We will seek to optimise long-term risk adjusted investment returns for our customers in a sustainable way, recognising that our customers will live in the society we mutually help to create.

Our investment beliefs, which are informed by our investment philosophy, our understanding of the investing environment and our obligations to our customers, shape how we invest and influence our investment processes. Our investment beliefs closely align to our Purpose:

Protecting today

- We believe our customers want to know where their money is invested and the impact that it has on the world around them.
- We believe combining different sources of return with low correlation factors can reduce overall portfolio risk.

Investing in tomorrow

- **Sustainable futures:**
  - We believe that over the long term, the most significant risk/return optimisation factor is the strategic asset allocation. We feel that risk taking is typically rewarded in the long term and seek to take risk where there is sufficient potential for that risk to be rewarded, it is within our risk appetite, and we have the skills to take that risk.
  - We believe the best future for our customers is one where we collectively achieve the goals of the Paris Agreement and that actions taken up to 2030 will determine the shape of the century to come.[1, 2]
  - Our customers rely on us to invest their money prudently and protect value over the long term, so wherever possible we seek to align our investment strategy to reflect customers' investment horizons.
- **Investment style:** We believe the appropriate investment style for a region, asset class, sector or theme may change over time.

Together we are mutually responsible

We believe transparency is essential to enable trust in us and the wider financial system.

We believe we should act as a responsible steward of the assets we invest in on behalf of our customers, who rely on us to invest responsibly – in line with our legal duty and responsibility as a mutual insurer.

Our Stewardship and Engagement, Exclusions, and Voting policies are underpinned by our Investment Philosophy and Beliefs. As a result, they are also aligned to our Purpose.

Serving our customers and members

Our Purpose helps us to be clear with our customers about the difference we intend to make for them. We assess how we are performing against our three Purpose outcomes in several ways. This includes assessment against benchmarks, through the work of our Independent Governance Committee, and through customer research. We issue a biannual customer relationship survey which includes questions designed to ascertain customers' views on the extent to which we are progressing towards our Purpose outcomes.

In 2024, we will continue to review and refine how we measure progress against all three of our Purpose outcomes. We provide a summary of our key progress against each of these during 2023 within our Annual Report and Accounts, available at www.royallondon.com. We have also identified specific measures to track progress towards achieving our Purpose outcome of 'Moving fairly to a sustainable world'. These measures are set out in our Climate Report 2023 (Task Force on Climate-Related Financial Disclosures), which you can also read at www.royallondon.com.

In November 2023, the RLMIS Board reviewed the progress made in 2023 against achieving this Purpose outcome, taking note of the vital role that responsible investment plays in delivering our Purpose. The review identified priority focus areas for 2024 to strengthen this progress. These include: building on our Climate Transition Plan focus areas such as fossil fuel investments and climate-aware investment solutions; strengthening collaboration with industry bodies and regulators; aiming to increase Royal London's voice externally to help influence the debate on what is needed for a just transition[2] to net zero; embedding responsible investment and sustainability across the Group; and continuing to build our internal capability with sustainability-related training for all colleagues across the business.

Our objective to maintain signatory status of the UK Stewardship Code 2020 demonstrates our intention to continue to serve the best interests of our clients and beneficiaries, in line with our Purpose. We will continue to review our progress against the Code in 2024, being clear on the impact we want to have and how we will measure this.

Further assessment of our effectiveness in serving the best interests of our customers is provided under Principle 6 (Client and beneficiary needs).

1. We recognise that the trajectory to a net zero world will not be linear, with financed emissions potentially rising in some years, and that our actions and strategies will need to be adjusted to accommodate emerging trends including in government policy.
2. This is reflective of the Royal London Group's long-term ambition. It does not guarantee that a product will try to meet this outcome individually – if you are seeking a particular outcome, always check the product documentation to ensure it will meet your needs.

Principle 2

Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship.

Governance

The RLMIS Board is responsible for promoting the long-term sustainable success of Royal London in a manner that seeks to generate value for our members while taking account of the interests of its stakeholders, the impact it has on the environment, and its contribution to wider society.

The Board delegates to the Group Chief Executive Officer (CEO) the day-to-day management of the Group to achieve its Purpose and to implement its strategy in line with its culture, values and ethical and regulatory standards.

The Board delegates authority to committees, who consider and make recommendations to the Board on important issues of policy and governance facing the Group. This structure ensures that there is appropriate expertise and diverse opinions overseeing Royal London's affairs, and it facilitates effective and transparent decision making.

The RLMIS Investment Committee supports the Board in managing investments held as principal in a manner that is consistent with RLMIS' Investment Philosophy and Beliefs. The committee is responsible for assessing whether assets remain appropriately invested to meet the needs of Royal London's members and policyholders, as well as for monitoring Royal London's investment strategy and investment performance. It also reviews the approach to investment in both existing and new investment asset classes, having considered the interests of policyholders and members and any material ESG matters including climate change. In addition, on an annual basis, the committee recommends RLMIS' Investment Philosophy and Beliefs for approval by the Board.

The RLMIS With-Profits Committee supports and advises the Board in managing With-Profits funds and in considering the interests of all With-Profits and unit-linked policyholders with an entitlement to a share in the profits of the Group. It also exercises judgement in advising the Board on the achievement of fair treatment of those policyholders and fulfils its obligations under court schemes. The committee operates in accordance with the Financial Conduct Authority's (FCA's) Conduct of Business Sourcebook, section 20.5, and the FCA's Principles for Business. Given our mutual status, the RLMIS With-Profits Committee plays a key role in stewardship.

The Board and all its committees within the Group must demonstrate that they take ESG considerations into account and incorporate these in their respective reporting. A mandatory template, prescribed in Board and committee paper templates, acts as a tool to embed this in day-to-day decision making.

Each year, the Board completes a formal evaluation of the performance of the Board, its committees, the Chairman and individual directors. For more information on our Board evaluation mechanisms, including progress against previous recommendations, see our 2023 Annual Report and Accounts, available at www.royallondon.com.

Beyond this, we have other committees relevant to stewardship activity, but which work independently to the Board. These include:

- The Independent Governance Committee, which acts independently from the Board to assess the ongoing value for money provided by Royal London to its Workplace Pension and Investment Pathway customers. Its wider remit includes consideration of ESG factors that are material to the suitability of an investment, among other responsibilities. The committee operates in accordance with the requirements of the FCA's Conduct of Business Sourcebook, section 19.5.
- The Investment Advisory Committee, which provides a forum for independent challenge of Royal London's unit-linked investment solutions. It focuses on the proposition design and performance of our Governed Range, individually selectable funds managed by Royal London Asset Management, Investment Pathways and the Royal London Matrix Range[1]. This provides clarity of thought to address issues and identify opportunities and solutions, ensuring the continuous improvement mindset needed to deliver our Purpose. Its wider remit includes the way in which ESG themes are considered and integrated into investment solutions, among other responsibilities.

Full terms of reference of the Board, its committees and the abovementioned independent committees are available on www.royallondon.com.

1. For further detail of our products and services, see page 22.

2023 stewardship governance

In 2023, the RLMIS Investment Committee undertook its annual review of our Investment Philosophy and Beliefs. No updates were required following this review. Biannual stewardship meetings continued with all our key external asset managers and Royal London Asset Management. Find further detail on how we monitor our asset managers under Principle 8 (Monitoring managers and service providers).

Strategic asset allocation (SAA) reviews, undertaken during 2023, applied our investment beliefs, such as customer focus and diversification, and we also applied our SAA framework to consider economic and climate scenarios.

The RLMIS Investment Committee continued to monitor the embedding of our Purpose and strategy into investment activities.

Relationship with our suppliers

Royal London considers stewardship of our suppliers from the outset. When entering a contract with a supplier, key requirements must be met including alignment with our risk appetite (and associated framework), legislation and regulation. We communicate our Purpose and strategy with prospective suppliers and look for alignment where possible, with the information gathered forming part of any sourcing decision.

A number of frameworks and policies support stewardship of our supplier relationships – to protect the customer experience and outcomes, manage risks and environmental impact, as well as ensure that the supplier is a strategic and technological fit. These include our:

- **Outsourcing Strategy Framework**, which guides decisions to outsource any functions, processes, services or technologies. Decisions are taken through strict Executive and Board governance in adherence with the FCA's SYSC 8 (part of the Handbook in High Level Standards) and Prudential Regulation Authority SS2/21 regulation.
- **Third-Party Risk Management Framework**, which outlines how we manage our suppliers, and includes our Procurement and Third-Party Management Policy. We also undertake ongoing due diligence on our suppliers across a range of topics.
- **Supplier Code of Conduct**, which sets out the standards we expect from suppliers and how we would like to work with them. We engage our suppliers on ethics and integrity, human rights, labour standards and modern slavery, environmental standards, and diversity and inclusion. Acknowledgement of this Code by suppliers is required prior to contract signature. Suppliers must also comply with the Modern Slavery Act 2015. In respect of living wage, we ensure that all supplier employees who work on Royal London premises are paid the UK Real Living Wage set by the Living Wage Foundation.

We work with external partners to understand our supply chain emissions, and with our suppliers to understand their climate targets and performance in relation to transitioning towards net zero.

Relationship with Royal London Asset Management

Royal London Asset Management and RLMIS share the same Purpose, as noted under Principle 1 (Purpose, strategy and culture). The Board of Royal London Asset Management Limited is required to act in a manner most likely to promote the success of Royal London Asset Management for the benefit of RLMIS. This is consistent with ensuring that Royal London Asset Management's external clients are treated fairly.

RLMIS monitors how Royal London Asset Management aligns its stewardship-related decisions with our Stewardship and Engagement Policy. Royal London Asset Management provides RLMIS with reporting on how it has voted, its exclusions list and for climate and ESG considerations. These aspects and its engagement activities are assessed and discussed at biannual stewardship meetings. Every three years, RLMIS carries out a formal review of Royal London Asset Management to assess whether it should continue to manage the majority of our customers' assets. More information on our oversight of Royal London Asset Management is provided under Principle 8 (Monitoring managers and service providers).

Resources

Our focus on stewardship, including responsible investment and engagement activity, is reflected in the development of our internal capability and expansion of resources in these areas. This includes close collaboration with Royal London Asset Management to help bolster stewardship-related activity across the Group.

Building our internal capability

Responsibility and sustainability are at the core of our Purpose – and we are committed to consistently and measurably aligning our activities to this Purpose.

Within RLMIS, the Investment Office is a dedicated team of investment professionals with responsibility for developing our investment strategy as well as overseeing how assets are invested and managed on behalf of our customers and members. This includes responsibility for appointing and monitoring asset managers in line with our Asset Manager Oversight Framework, which provides structured oversight of asset managers' adherence to our stewardship and engagement-related RLMIS policies – find further information under Principle 8 (Monitoring managers and service providers).

Beyond this, our Investment Office monitors regulatory developments relevant to investment matters and develops and executes Royal London's investment strategy. The Investment Office includes 22 investment professionals, led by the Group Investment Director. The team's expertise covers investment strategy, asset allocation, implementations, risk management and analytics, fund performance, fund operations and asset management oversight. The Investment Office team also collaborates closely with the RLMIS' Investment Solutions team, which develops and oversees our propositions.

To support delivery of effective stewardship outcomes, a Group Sustainability and Stewardship function was established in January 2022 within Royal London's CEO Office. As at 31 December 2023, this team included eight full-time colleagues with a range of skills and experience including investment management and governance, environmental sustainability, corporate responsibility, facilities management, data analytics, actuarial expertise and audit skills. The team is led by the Head of Group Sustainability and Stewardship, who reports to Royal London's CEO Office Director.

The Group Sustainability and Stewardship function works closely with stakeholders throughout Royal London to progress and embed good practice across sustainability and stewardship activities. Its collaborative approach helps to engage all areas of Royal London in understanding and integrating these key issues into day-to-day and strategic planning activities.

Other core functions within RLMIS also allocated resources and provided specialist expertise during 2023 to progress the delivery of our product, investment and operational sustainability goals. This included:

- the Investment Solutions team, which is involved in biannual stewardship meetings with asset managers alongside the Investment Office
- the Group Actuarial team, which conducts climate scenario stress testing to assess the impact of climate change on Royal London's funds and capital position, and to address regulatory expectations
- Group Risk and Compliance specialists, who embed climate change into the RLMIS risk management framework.

Given that Royal London Asset Management manages over 95% of our investments and is an integral part of the Group, RLMIS also benefits from the capability and expertise of Royal London Asset Management colleagues. Within Royal London Asset Management, the Responsible Investment team comprises 18 dedicated responsible investment colleagues, who are specialists in sustainability and ESG. They collaborate closely with the Royal London Asset Management investment teams to integrate ESG factors into investment decisions, consult on proxy voting, and drive improvements in the companies they invest in. To further embed expertise, Royal London Asset Management developed more targeted responsible investment and sustainability training in 2023 for colleagues including client-facing staff, investment professionals, Board and Executive Committee members. This was piloted in late 2023, ready for roll out to all Royal London Asset Management colleagues in 2024.

Strengthening our sustainability capabilities

To identify, assess and manage climate-related risks and opportunities as effectively as possible, we continue to focus on strengthening our internal capabilities. Following on from our Sustainability Learning Programme, which we delivered in 2022 to over 140 colleagues in key roles, we plan to deliver a Sustainability Learning and Capability Plan in 2024 and beyond, building climate knowledge and skill requirements for all colleagues. We also signpost our Purpose outcome 'Moving fairly to a sustainable world' in our induction sessions for new colleagues.

We continued to develop our internal 'Eco Champs' colleague network which, by the end of 2023, had grown to more than 540 members. This voluntary network helps build a culture of sustainability across Royal London by educating and engaging colleagues, for example by organising 17 events for colleagues during 2023.

We also increased engagement with colleagues to educate and inspire them to reduce their personal carbon footprints and take positive action through our partner app, Pawprint. During 2023, colleagues used the app to log more than 19,000 actions, representing a four-fold increase on the previous year's activities.

To gain valuable insight to help plan engagement with colleagues into 2024 and beyond, we introduced a new question to our 2023 colleague engagement survey, asking if colleagues agreed with the statement that they understood their role in contributing to our Purpose outcome of 'Moving fairly to a sustainable world'. Among respondents, 71% of colleagues agreed with this statement, with 22% responding neutrally and 7% disagreeing.

Diversity, inclusion and wellbeing at Royal London

We strengthened our Diversity and Inclusion Strategy in 2023 with alignment to the Association of British Insurance's D&I Blueprint. We remain focused on achieving our commitments under the HMT Women in Finance Charter and the Race at Work Charter. We have an excellent colleague diversity disclosure rate of 91% and in 2023 we extended our disclosure data to include a social mobility metric, to help shape our positive action plans.

In 2023, we also retained our 'level 2' status as a Disability Confident employer. We provide support and adjustments for disability, long-term health conditions and neurodiversity to candidates and colleagues. This includes offering first-stage interviews to candidates with declared disabilities who meet the minimum criteria for the role. It also includes ensuring colleagues with declared disabilities, long-term health conditions and neurodiverse conditions have access to the appropriate support to progress their careers while at Royal London.

We are proud of our calendar of inclusion activities and events, supported by our four colleague-led inclusion networks: DAWN (Disability AWareness Network including neurodiversity), our LGBTQ+ PRIDE network, REACH (Race, Ethnicity and Cultural Heritage including faith) and our Women's Network. The 2023 calendar included support for colleagues to attend PRIDE events in Edinburgh and Dublin, as well as activities to celebrate Black History Month, International Men's and International Women's Day, World Mental Health Day and World Menopause Day. In September 2023, we also celebrated National Inclusion Week with a series of events on the theme of allyship, and launched the multi-faith pillar under REACH.

In addition to launching the second phase of our Career Confidence programme, we completed a first phase of our reciprocal mentoring programme for our Group Executive Committee, matching them as mentees with mentors from our REACH network. This is to help leaders better understand lived experiences of colleagues from under-represented backgrounds to strengthen focus on inclusion and allyship. We also ran wellbeing events and activities to promote the support available. Our volunteer Mental Health First Aiders support activity by leading on sessions focused on mental health, financial wellbeing and a healthy mind.

Additional stewardship resource investment

Data capabilities to improve oversight

We have contracts in place with MSCI and AssetQ as data providers to enhance our asset manager monitoring capability. Allocating resource to MSCI Climate Change data and MSCI ESG Fund Rating data, with relevant colleague training, supports our assessment of portfolio carbon exposures and monitoring of asset manager exclusions. During 2023, MSCI ESG Fund data was actively used to assess our portfolios, increasing our capability to monitor and oversee our asset managers.

In 2024, we will hold biannual stewardship meetings with all our seven key external asset managers[1] and Royal London Asset Management. These meetings will include a formalised discussion of MSCI data analysis on Climate Change and ESG Fund Rating, and we will continue to develop these meetings to gain further understanding of our key asset managers' activity in relation to the climate transition. For any new key external asset managers introduced from 2024 onwards, we will explore how best to integrate stewardship meetings as the relationship evolves.

Scenario modelling

We use Moody's Analytics to provide economic scenario modelling outputs to support future strategic asset allocation activity, including related climate scenario stress testing.

Further information on how we monitor and engage with our service providers is included under Principle 8 (Monitoring managers and service providers).

Performance management and reward

Bonus schemes

Royal London has an incentive framework designed to help colleagues focus on activities that support our Purpose, and that contribute to delivering long-term value for our stakeholders. The framework includes a Short-Term Incentive Plan (STIP), which applies to the majority of colleagues, and a Long-Term Incentive Plan (LTIP), which applies to certain members of the Group Executive Committee. Both are based on a scorecard approved annually and monitored by the Remuneration Committee. These scorecards include targets and metrics that track delivery of key outcomes that support our strategy.

In 2023, we included a measure in our STIP to demonstrate progress in delivering a number of our priority initiatives, including our climate ambitions. Our 2023 LTIP also included two climate-related measures with a combined 10% weighting designed to incentivise engagement on investee companies' net zero and just transition plans.

1. Key external asset managers are those who manage over £100m each on our behalf.

Principle 3
Conflicts of interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

RLMIS is committed to meeting the highest standards of personal and corporate ethics in all our activities.

Royal London's Conflicts of Interest (CoI) Policy applies to all employees, directors and non-executive directors when they are acting for, or on behalf of, any of the Group's companies. The policy also applies to any other individuals operating on behalf of Royal London, such as consultants, contractors and agency workers.

The CoI Policy provides a framework to help Royal London ensure we always act in the best interests of our customers and it requires the abovementioned colleagues to disclose any conflicts of interest. The disclosure must include the actions that have been implemented to mitigate the conflict. Failure to declare an interest is regarded as misconduct and may lead to disciplinary action.

We recognise that Royal London may encounter a range of conflicts. Potential stewardship conflicts addressed by the CoI Policy can include:

- Royal London individuals having vested interests outside of the Group – such as a Board or committee member having a role at a company we invest in, or a key supplier.
- RLMIS investing in the securities of clients – such as a pension client or a supplier.
- Interactions between Group companies – such as between RLMIS and Royal London Asset Management Limited.

Board members are required by law to avoid situational conflicts of interest (or have these authorised by the Board if the conflict is unavoidable). The RLMIS Board is authorised to approve conflicts or potential conflicts of interest in relation to directors. During 2023, the Board reviewed the interests of directors and their connected persons and authorised any interests that conflicted or potentially conflicted with the interests of the Group. Any identified and authorised conflicts are assessed and managed on an ongoing basis.

The RLMIS Board, led by the Chairman, regularly reviews the independence of the non-executive directors, as advised by the Group Company Secretary, and takes action to identify and manage conflicts of interest. The Board satisfied itself that each non-executive director continues to be independent throughout 2023.

The risk of conflicts arising from RLMIS investing in its clients (for example, employers with a Royal London Personal Pension arrangement) is mitigated by delegating our investment decisions to our asset managers. Except for cases where employers or pension scheme advisers request specific input from Royal London Asset Management, we do not share our client information with asset managers. This reduces the risk of our asset managers having visibility of such information that could influence decision making. Our asset managers also have their own conflict of interest policies.

Conflicts arising from interactions between Group companies are managed via our Board arrangements. As discussed under Principle 2 (Governance, resources and incentives), Royal London Asset Management Limited is an indirect wholly owned subsidiary of RLMIS with clients external to Royal London. The roles of the Independent Governance Committee and the RLMIS With-Profits Committee are also relevant in managing this potential conflict for customers under their remit.

Our Procurement and Third-Party Management Policy also includes arrangements for managing risks associated with interactions between Group companies, for example between RLMIS and Royal London Asset Management Limited. This policy requires the appointment of a Relationship Owner which, in the case of RLMIS' relationship with Royal London Asset Management Limited, is the Investment Office's Head of Oversight.

Royal London Asset Management carries out key stewardship activity on behalf of the Group. While this relationship needs to be carefully managed, co-operation between RLMIS and Royal London Asset Management enhances our shared capabilities and benefits RLMIS customers. More detail on stewardship activity Royal London Asset Management has undertaken on behalf of RLMIS is provided under Principles 4 (Promoting well-functioning markets), 9 (Escalation), 10 (Collaboration) and 12 (Exercising rights and responsibilities). An explanation of how RLMIS oversees stewardship activity undertaken on its behalf by all our asset managers is given under Principles 8 (Monitoring managers and service providers) and 11 (Escalation).

Managing stewardship conflicts

We aim to ensure that potential conflicts are identified and managed in the best interests of our clients and members. Potential conflict management approaches include, but are not limited to, the following functions and policies:

- Our Investment Office's direct interactions with our asset management business through the Royal London Asset Management Strategic Partnership team, which is dedicated to managing the relationship between RLMIS and Royal London Asset Management.
- Our Seeding Policy sets out how RLMIS provides seed funding for new Royal London Asset Management funds. Further information on our seeding activity is provided under Principle 7 (Stewardship, investment and ESG integration).
- The Procurement and Third-Party Management Policy stipulates our requirements for employees managing material contracts. This includes making sure services are delivered in line with contracts, agreements and stewardship expectations.
- The Asset Manager Oversight Framework oversees the performance of our asset managers. It is applied consistently across asset managers, with 'enhanced oversight' established for our key external asset managers and for Royal London Asset Management. Further information is provided in Principle 8 (Monitoring managers and service providers).
- Royal London's Voting Policy sets out how we expect our asset managers to vote on resolutions in company holdings managed on our behalf. More information on Royal London's Voting Policy is set out under Principle 12 (Exercising rights and responsibilities).

In 2023, there were no material conflicts of interest requiring disclosure.

Mitigating conflicts of interest within our private asset classes

We have continued to expand our annuity capabilities. Within our Matching Adjustment portfolio where these annuities are managed, we hold illiquid asset classes such as commercial real estate loans to back our annuity liabilities. These do not usually have a publicly available credit rating and therefore a credit rating is determined by the asset manager. Where this is the case the Prudential Regulation Authority (PRA) requires firms to develop their own Internal Credit Quality Assessment (ICQA) methodologies, which align to external Credit Ratings Agency approaches, and have this approved by the PRA under a Matching Adjustment application. The ICQA also helps us to mitigate the potential conflict of interest arising from the asset manager originating and managing the private asset classes. The ICQA process is overseen by the Group Chief Actuary, with additional assurance provided by second line. This ensures that the ratings we use have been challenged appropriately.

Principle 4

Promoting well-functioning markets

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Risk management at Royal London

Effective risk management is a fundamental part of delivering on our Purpose and strategy. It aims to address the significant risks we are exposed to, so that our business remains sustainable, can grow safely, and continues to serve our customers.

The Board with the support of its Risk and Capital Committee is responsible for Royal London's risk management and internal control system, and for reviewing its effectiveness. The system is designed to manage and mitigate risks to achieving our business objectives. Our risk appetite defines the level of risk we are willing to take, aligns to our Purpose and strategy, and is approved by the Board.

Employees at all levels have risk management responsibilities, defined by the 'three lines of defence' model described in Principle 5 (Review and assurance). In particular, the management of each business unit and corporate function is accountable for identifying, measuring, reporting, managing and mitigating all risks relevant to its area of business. This includes the design and operation of suitable internal controls and the allocation of risk and control responsibilities.

Market-wide and systemic risks

The early identification of risks – including those emerging from developments in the external environment, such as regulatory or political changes – is a key part of the risk management system. This includes an assessment of likelihood and potential impact to enable us to fully understand the scale of a threat.

We monitor new and evolving external risk exposures using a range of processes to identify upcoming and existing risks, regulations and trends. These include:

- **Quarterly regulatory radar:** An overview of the key FCA-driven regulatory changes, issues and emerging trends that impact the sectors in which we operate. This is owned by the Group Risk and Compliance function.
- **Regulatory update newsletter:** A regular newsletter compiled by the Group Risk and Compliance function and distributed through our business, which highlights significant regulatory changes, including climate-related regulatory changes.
- **Emerging and Strategic Risk Forum:** A biannual gathering of key individuals involved in the management of emerging risks, strategic risks, and stress and scenario testing. The output report details the risks identified, an indication of when they might impact our business and who the appointed business owner is.
- **Technical Support team daily scan:** A daily scan for any changes in legislation or regulation that could affect any of our UK products, including ESG-related changes. Changes are summarised and directed to the appropriate teams to address. The Technical Support team tracks items to completion.
- **Competitors and markets scan:** A weekly newsletter that summarises key activity among our competitors and in the market. The newsletter includes a section on 'climate, nature and sustainability'.
- **Legal and Regulatory Horizon Scanning Roles and Responsibilities Forum:** A quarterly gathering to review and, where required, update roles and responsibilities for horizon scanning.

Once identified, risks are managed in line with our Emerging and Strategic Risk Management Framework and monitored at our Emerging and Strategic Risk Forum. This forum comprises members from across Royal London who identify and assess emerging risks and possible mitigating actions. Information about emerging risks is provided to senior management and the Board and is used to inform decision making.

In 2023, we considered the following to be the principal market-wide and systemic risks to the stewardship of our customers' and members' investments:

- **Climate change:** Over 2023, we monitored and managed the risks climate change could pose to Royal London and to our propositions. We also provide biannual updates to our Group Executive Risk Committee on our residual exposure to climate risks relative to Royal London's climate risk appetite statement to identify and prioritise risk effectively. More information on this statement and on how we manage climate risk is presented within our Climate Report 2023, available at www.royallondon.com. We continue to engage with regulators and our industry peers to support developments required to address climate change.
- **The economy and Royal London's key markets:** We review our business to ensure we have plans in place to tackle today's challenges. In 2023, key challenges included economic instability, underpinned by continuing inflationary pressures and amplified by the humanitarian and geopolitical crises in Ukraine and the Middle East.
- **The political and regulatory environment:** There was continued political uncertainty in 2023. During the year, inflation fell but remained higher than the UK government's target and cost of living pressures continued. While worries about a deep recession had largely gone away, the prospects of higher interest rates compared with recent years, continued political uncertainty, including a high volume of national elections scheduled to take place around the world in 2024, will continue. We continue to work with industry bodies such as the Association of British Insurers to review and respond to consultations on regulatory change.

Principal market-wide and systemic risks will continue to evolve beyond those listed above. In 2024, we will continue to consider the rapidly evolving universe of external risks, such as the ongoing humanitarian and geopolitical crises in Ukraine and the Middle East, and cost of living pressures. We will continue investing in our security systems with the aim of maintaining our operational resilience. We will continue to monitor the impact of external markets and global political issues on our business.

Our process for identifying and addressing emerging risks is reviewed on an annual basis in line with our risk management arrangements. We will continue to review our arrangements to identify risks impacting customer outcomes and take action to support their interests.

More information on how we manage the above principal risks is provided in our Annual Report and Accounts, available at www.royallondon.com.

Responding to trends

As described under Principle 6 (Client and beneficiary needs), the management of our customers' assets includes strategic and tactical asset allocation changes to optimise customer outcomes. This includes changes in response to principal risks.

More information on how we work to reduce systemic risk exposure through our investment approach is provided under Principle 7 (Stewardship, investment and ESG integration).

Climate change risk management

To support our assessment of customers' and members' exposure to climate risks, we have incorporated climate change risk within our strategic risk framework and our Own Risk and Solvency Assessment. Climate-specific risks are typically grouped into two categories, physical and transition risks, which we describe in the table below.

Climate risk category	Description	Sub-category	Sub-category description
Physical	Risks related to the physical impacts of climate change	Acute	Climate-related events, such as heatwaves, drought, storms or flooding, leading to damage to land, buildings, stock or infrastructure
		Chronic	Longer-term shifts in climate patterns with impacts such as falling crop yields, sea level rises, migration, political instability or conflict
Transition	Risks related to disorderly adjustments to markets as a result of the transition to a low-carbon economy	Policy	Including carbon pricing, emission caps and subsidies
		Market	Including the emergence of disruptive green technologies and changing consumer behaviours
		Reputation	Stakeholder expectations to address climate change

Our largest exposure to climate change risks is the impact they may have on the assets we look after for our customers and members. To help manage these risks, we have embedded climate risk evaluation into our SAA process. Royal London Asset Management has over 20 years' experience of running sustainable funds, and has registered several new funds including Sustainable Investment, Global Equity and Fixed Income strategies. We have also moved the passive equity portfolios in our Governed Range to tilted funds that prioritise or de-emphasise the weight or amount we hold in certain stocks, based on ESG criteria. Royal London Asset Management carries out flood risk assessment across all property assets. It also has a net zero target for property.

We have taken steps to develop our understanding of the possible impacts of climate risks by carrying out climate scenario analyses to assess the impact of these risks on our funds. Our analysis tells us the impact of climate change is likely to lead to a range of negative economic and social impacts of varying severity, depending on the climate scenario assessed, with impacts varying both across and within sectors. These outcomes reinforce the rationale for the investment changes described above. More detail on this assessment, and its limitations, can be found in our Climate Report 2023, available at www.royallondon.com.

Our involvement in industry initiatives

We are committed to working with our peers in the financial sector, regulators and policymakers to play our part in responding to market and systemic risks.

We focus our time and attention on those issues we feel are most material to our investments, and where we think engagement can have the biggest impact on ESG outcomes. RLMIS has established two priority engagement themes: climate change and inclusion (focused on a just transition). We consider these priority issues in all our stewardship activities. In 2023, we led and participated in a number of industry forums and initiatives focused on reducing and mitigating the effects of climate change, and on the just transition, in line with our engagement priorities.

Later in 2023, we identified three priority areas for proactive engagement with policymakers, industry groups and regulators on the transition to net zero. From 2024 onwards, these priority areas will increasingly shape our engagement activities towards supporting specific outcomes, with a focus on:

- **UK long-term infrastructure strategy:** To encourage investment in the UK's net zero transition, financial markets will need to work in close partnership with the UK government in further developing its plans to reach net zero by 2050. Royal London will seek to influence the UK government towards providing more clarity and certainty on:
  - its long-term energy infrastructure strategy, with specific consideration for renewable energy, smart grids and grid-scale energy storage
  - how the development of the UK's long-term energy infrastructure strategy will support a just transition
  - the electrification of mass transportation and commercial and passenger vehicles.

  To support the UK government's long-term trajectory, we would also like to see examples of governments pricing externalities such as climate impacts. This could take the form of, for example, tax incentives, levies and subsidies, and/or cap-and-trade programmes.
- **Value for money:** We will explore with policymakers how a cost-focused culture may be shifted to enable greater investment in value-adding opportunities, including investment in the solutions needed to enable the net zero transition. This may include assets that preserve an appropriate level of customer protection but incur higher costs, such as certain illiquid investments.
- **Blended finance:** This combines public and private sector funds to support projects or initiatives with social or environmental goals. It catalyses private finance by improving the risk profiles of investment opportunities. We will work with industry groups to identify and encourage potential blended finance opportunities.

During 2023, the UK government placed significant focus on increasing domestic investment from pension funds, and this has continued under the new government following the UK general election in July 2024. We closely tracked related initiatives throughout 2023, including the Mansion House Compact as well as amendments by the FCA to broaden access through Long-Term Asset Funds. While these and other initiatives primarily focus on encouraging economic growth, we have suggested that they can also support corporate climate and net zero ambitions such as Royal London's. Looking ahead, we will continue to track new initiatives, such as the National Wealth Fund and GB Energy, as they are established.

Royal London Asset Management undertakes some industry and policymaker engagement activity on our behalf. See page 15 for examples of this in 2023. Further information on our engagement priorities is provided under Principle 9 (Engagement).

Effectiveness review

Overall, we believe we have been effective in identifying and responding to market-wide and systemic risks to promote well-functioning financial markets, demonstrated by:

- the range of processes we have in place across the business to identify upcoming and existing market-wide and systemic risks, regulations and trends
- the incorporation of climate change risk within our strategic risk framework and our Own Risk and Solvency Assessment
- the creation of clear policymaker engagement themes in 2023 and active engagement in industry initiatives to progress our priorities.

We will continue to develop our Group-wide approach to climate risk management in 2024, for example by expanding our climate risk appetite statement to include examples of the types of climate risks faced by Royal London. We will continue to engage with policymakers on our priorities.

2023 industry and policymaker engagement activities

Association of British Insurers (ABI)

We are active participants in ABI activities, and we have several colleagues involved in a number of ABI committees and working groups. This includes being a founding member of the Investment Delivery Forum and being a member of the Financial and Corporate Reporting Committee and the Climate Change Steering and Working Group.

In 2023, we provided input into the ABI's Guide to Action on Nature, which was published in July 2023, and fed into the ABI's response to the FCA's consultation on Finance for Positive Sustainable Change. We also advocated for the importance of the just transition and connected the ABI with the International Labour Organization, UN Environment Programme – Finance Initiative and the Financing the Just Transition Alliance to work together on developing guidance for insurers.

Climate and Financial Risk Forum (CFRF)

In 2023, Royal London participated in industry webinars as part of CFRF's Disclosure, Data and Metrics Working Group, including on the limitations of portfolio climate data, forward-looking portfolio metrics, and climate data coverage. Royal London also supported the work of the main forum and connected it with the development of the Transition Plan Taskforce's guidelines for asset managers and asset owners.

Financing a Just Transition Alliance

One of our Purpose outcomes is to play our part in moving fairly to a sustainable world. In 2023 Royal London Asset Management, acting on behalf of the Group, contributed to a number of initiatives and publications pursued by the Alliance with a key emphasis on corporate engagement, including the Alliance's response to the Transition Plan Taskforce Disclosure Framework and Implementation Guidance in March 2023.

Institute and Faculty of Actuaries (IFoA)

As a participant in the IFoA's Life Climate Change Working Party during 2023, we delivered a talk to the Actuarial Society of South Africa on the impact of climate change on the actuarial profession. We also presented to the IFoA Actuarial Life conference on climate transition planning for life companies.

Investment Association

Royal London Asset Management participated in the Sustainability and Responsible Investment Committee and a number of working groups, including on climate, stewardship and regulation.

As part of the activities, colleagues reviewed a draft of the UK Sustainability Disclosure Requirements and provided feedback to discussion and consultation requests. In addition, colleagues provided an update for Investment Association members on the work Royal London Asset Management has done supporting the Transition Plan Taskforce asset manager working group after the publication of the Transition Plan Taskforce's guidelines in November 2023.

Scottish Taskforce on Green and Sustainable Financial Services

As a Taskforce member, we provided information to support the Scottish Government with insights in relation to financing nature, to inform Scottish Government policies in relation to nature finance, including carbon markets and offsets. A report summarising the Taskforce's findings is expected to be issued in 2024.

The Institutional Investors Group on Climate Change

As co-chair of the Utilities Sector Working Group, Royal London Asset Management signed up to an initiative to send letters to European energy utilities requesting they re-commit to the 1.5°C-aligned pathways necessary to pursue efforts to limit the global temperature increase in line with the Paris Agreement, and that they lobby governments for decisive action for energy security and the transition to net zero.

Transition Plan Taskforce

Royal London contributed to the development of the Asset Manager, Asset Owner and Just Transition guidelines which were published in November 2023.

UK Sustainable Investment and Finance Association

In our role as a member of the Policy Forum, Royal London contributed to and signed a letter in September 2023 as both RLMIS and Royal London Asset Management to the UK government, reflecting asset managers' concerns about the government's public statements and policy signals on net zero.

UN Environment Programme – Finance Initiative and International Labour Organization

Royal London was the only financial institution included in the advisory group and actively contributed to the development of the first roadmap for the banking and insurance sector implementing just transition, which was unveiled at COP28.

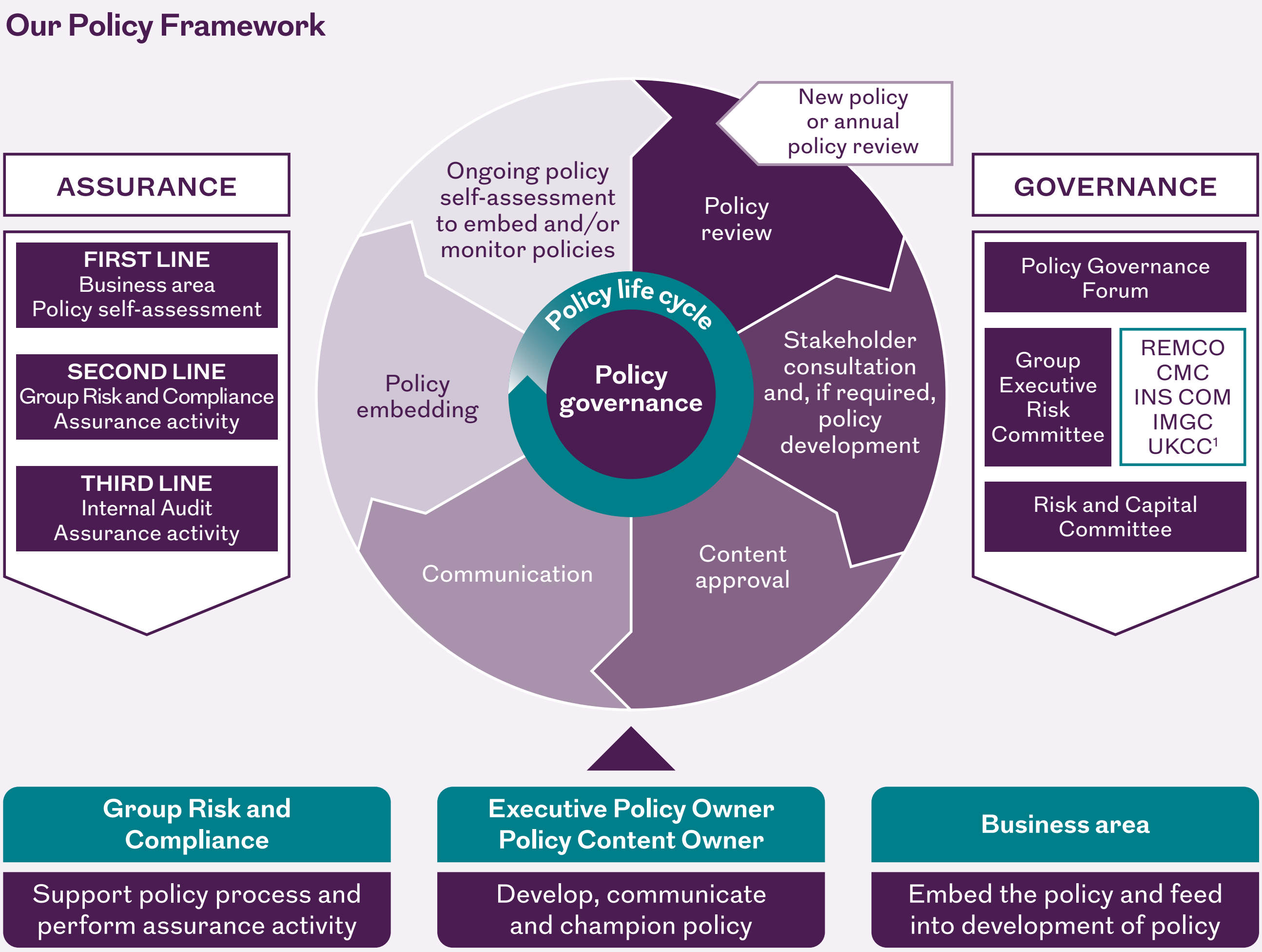
Principle 5

Review and assurance

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Our Policy Framework

Our Policy Framework, illustrated below, forms part of the Risk Management System maintained by the Group Risk and Compliance function.



1. **REMCO**: Remuneration Committee. **CMC**: Capital Management Committee. **INS COM**: Insurance Risk Committee. **IMGC**: Internal Model Governance Committee. **UKCC**: UK Customer Committee.

Policy review process

The Policy Framework applies to the entire policy life cycle, covering consultation, approval, communication, implementation and monitoring that policies are effectively embedded.

Each policy has a Group Executive Committee owner allocated to it. They are responsible for ensuring the policy is implemented, embedded into the business and reviewed according to the review process established and monitored by our Group Risk and Compliance function. Policies have local policy owners responsible for the day-to-day embedding and assessment of the policy's implementation effectiveness.

All policies are reviewed according to the established life cycle, ensuring alignment with regulatory expectations and industry standards. These reviews ensure policies remain relevant and up to date.

Policy development and review: our key stewardship-related policies

Stewardship and Engagement Policy

We established the RLMIS Stewardship and Engagement Policy in 2021, which incorporated our Exclusions Policy and Voting Policy. Together, these policies outline the principles we apply as an asset owner and the responsibilities we retain. These responsibilities include:

- the definition of our engagement priorities and the frequency with which they are reviewed
- the approach we take to collaborative engagement
- the activities we delegate to asset managers
- our expectations of asset managers.

As we work to continuously improve our approach to stewardship and engagement across Royal London, RLMIS' policy became part of a Group-wide Stewardship and Engagement Policy in 2023. Find further details in Principle 8 (Monitoring managers and service providers). We review the Royal London Stewardship and Engagement Policy every three years, with the next review scheduled for 2024.

Voting Policy

Our Group-wide Voting Policy, which was created in 2023, applies to RLMIS. This policy sets the parameters for RLMIS as an asset owner (including our expectations for how external managers vote on our behalf) and for Royal London Asset Management as an asset manager. This policy incorporates the Royal London Voting Principles and Royal London Asset Management's Voting Guidelines, both of which are publicly available on our website. Prior to 2023, we followed our own RLMIS Voting Policy.

Customer Outcomes Policy

In 2023, Royal London's Customer Outcomes Policy was developed, supporting our objective to put customers' interests at the heart of what we do by delivering outcomes aligned to our Purpose and strategy, while also incorporating Consumer Duty requirements. This policy has been implemented and embedded across Royal London by a suite of controls, including improved processes for vulnerable customers and enhanced testing of communications to ensure customer understanding. From July 2024, the Customer Outcomes Policy will also cover our customers of products that are closed to new business, who we more commonly refer to as longstanding customers.

Three lines of defence and control framework

We recognise the importance of internal and external audit. We operate a 'three lines of defence' model that defines ownership and responsibilities of risk, including those directly relating to stewardship:

- **'First line' (business units and Group functions)** is accountable for identifying, measuring, reporting, managing and mitigating all risks relevant to its area of business. This includes the design and operation of suitable internal controls and the allocation of risk and control responsibilities.
- **'Second line' (an independent Group Risk and Compliance function)** provides specialist advice, oversight, challenge and assurance.
- **'Third line' (a Group-wide Internal Audit function)** provides independent assurance and advice and has a reporting line independent of our executive management.

Assurance

We use internal and external auditors as well as other external providers to assess our stewardship-related assurance requirements. We take into account the evolving ability of independent third parties to provide suitable assurance.

Royal London's Assurance Framework reflects the combined level of assurance across the three lines of defence on the risk and control environment working effectively across the Group. The assurance activity identifies potential improvements to the risk and control environment, and a combined assurance report is provided for relevant executive and Board-level committees which outlines outcomes of this assurance activity.

Based on our 2023 annual review of stewardship assurance requirement, we will review the oversight activities of the Investment Office frameworks and processes. Insights gained from this review will continue to improve our policies and processes.

Review of our Stewardship Report

This Stewardship Report was produced by the Group Sustainability and Stewardship function in conjunction with the External Communications team and relevant business areas. The process included information validation and the following review steps:

- second line review by our Group Risk and Compliance function
- review by relevant members of our Group Executive Committee and other members of senior management
- review and approval from the RLMIS Investment Committee.

Our Stewardship Report has also had the benefit of review by specialists in sustainability and stewardship communications, as part of helping ensure our reporting is clear, fair and not misleading.

Principle 6

Client and beneficiary needs

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Who are our customers?

Supporting our customers' financial resilience, while also delivering a fair transition to a sustainable world, requires us to understand customers' investment time horizons, attitudes towards risk, and sustainability preferences. We need to understand and balance our customers' needs to ensure we are generating risk-adjusted and term-appropriate investment returns in a responsible way.

Our stewardship approach is therefore underpinned by an understanding of the needs and preferences of our customers across our propositions for the UK and Ireland. These customers mostly hold retirement savings and long-term protection policies as shown in the breakdown below.

Our propositions[1]

UK[2]			Ireland
Long-term savings	Protection	Longstanding customers[3]	
• Workplace Pensions • Individual Pensions • Annuities • Later Life	• Life Insurance • Illness and Income Protection • Business Protection	• Pensions • Annuities • Protection	• Individual Pensions • Life Insurance • Illness and Income Protection • Business Protection
2,270,000 policies	**1,510,000 policies**	**4,310,000 policies**	**477,000 policies**

We categorise all our customers into four 'life stages', which inform how we offer products aligned to their investment needs:

- **Starting out:** these customers range in age from 18 to 34 years. Typically, younger customers can take on more risk, but may also be less engaged in selecting their own investments.
- **Building and growing:** these are customers aged 35 to 49 years. The focus remains on growth at this stage.
- **To and through retirement:** these customers are approaching retirement, ranging in age from 50 to 69 years. The investment focus is on consolidation and transition to assets more appropriate for decumulation.
- **Later life:** these customers are over 70 years. Consistent, sustainable income and management of sequencing risks are valued by these customers who are typically drawing down on their pensions.

Most of our pension customers are either in Workplace Pensions (Group Personal Pensions) or Individual Pensions. These products are defined contribution, and we do not offer a Master Trust. We also have a small number of longstanding customers in defined benefit schemes. The age of our customers influences their likely investment horizon, and this varies by product:

- Across our long-term savings business, we manage workplace pension schemes for over 23,000 employers covering approximately 1.9m employees. These employees range in age from their early twenties to mid-sixties, with an average age of 42 years. In long-term savings Individual Pensions, we have a further 355,000 customers – split approximately between 185,000 in accumulation products with an average age of 54 years, and 170,000 in drawdown. Our drawdown product is suitable for post-retirement customers of any age. This kind of product became much more widely used since Pensions Freedoms[4] were introduced in 2015 and so, at present, the average age is still relatively low at 66 years.
- We manage approximately 896,000 longstanding customers in individual accumulation products that are closed to new business. The average age of these customers is 57 years.

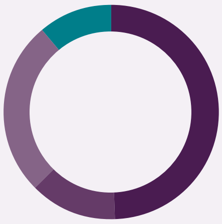
1. As at 31 December 2023.
2. The transfer of customer policies following our acquisition of Aegon UK's individual protection business was due to be completed in the second half of 2024. Therefore, policies held by customers of Aegon UK are not reflected in these figures.
3. The products we manage for longstanding customers include those closed to new business.
4. Introduced by the UK government in 2015, Pensions Freedoms allow customers to flexibly access the money saved in their defined contribution workplace pension plans.

In total, we invest £118bn on behalf of RLMIS customers (as at 31 December 2023). The split of this total across asset classes and geographical locations is shown in the charts below.

RLMIS assets by class[1] (31 December 2023)

Asset class	
Equity	41%
Corporate bonds	29%
Sovereign debt	13%
Property	6%
Derivatives	3%
Cash and deposits	6%
Other	2%

RLMIS assets by geography[1] (31 December 2023)



Country	
UK	49%
Europe	13%
Canada and United States	26%
Other	11%

1. Rounded to the nearest 1%.

Understanding our customers

Our approach

Several activities are key in helping us gain insight on topical issues impacting our customers:

- Customer relationship studies and research panels, which also help us understand how our customers believe we should act on issues that matter to them
- Regular consumer market research
- Information shared by customers when contacting us
- Monitoring of the actions taken by our customers – and advisers on their behalf – when interacting with us
- Votes and questions at Royal London's AGM.

Through biannual customer relationship studies, we reach out to a representative sample of our customers (approximately 3,000 per study) to understand their views on key topics. Our two main research panels complement these studies by enabling us to quickly carry out robust research with customers and financial advisers, facilitating in-the-moment feedback to drive better customer outcomes. Our customer panel comprises a representative sample of around 1,000 customers, while our adviser panel consists of more than 250 advisers and paraplanners. We use these panels to understand customer and adviser views towards our products, services, communications, and evolving customer needs. In 2024, we will explore supplementing these panels by piloting a new panel with employers, which will help us hear relevant customer insights directly from employers.

To support our research methods, we annually review the frequency, approach and scope of our surveys. Additionally, we examine the size of and demographics underpinning our survey samples to ensure our research is representative of our customers and of UK consumers.

Customers contacting our Group Operations function also form an important channel for improving our understanding of customer needs and concerns. Our colleagues are trained to recognise and record information on interactions with customers in which needs are highlighted. There is more information in the section 'Supporting customers' financial wellbeing' on how we manage this (see page 24).

In addition, our AGM provides members with an important opportunity to interact with our Board directly, to ask questions on topics that matter to them, and to vote on resolutions proposed by the Board.

Listening to our customers in 2023

During 2023, we continued our work to engage with and understand the perspectives of our customers. Through our research we know that the cost of living remained a cause of concern for a high proportion of our customers. We know that we manage pension savings for customers who have a broad range of understanding, including 20% who say they do not know that their pension is invested. We know that a large portion of our customers are invested over a longer term and our research in 2023 suggested that the impact their investments have on climate change is important to them – see page 20 for further detail.

At our 2023 AGM, members asked our Board questions about a range of topics including:

- investment performance and policy
- climate change
- investment in fossil fuels
- modernising technology
- diversity and inclusion
- governance and risk.

We reflect further on the wider customer and market trends impacting our members in our 2023 Annual Report and Accounts, available at www.royallondon.com.

Climate-related concerns

Our insight studies have consistently identified that consumers are interested in reducing their environmental impact. For example, as part of our November 2023 study with Royal London customers, over half (56%) stated that ensuring their investments have a positive impact on climate change matters to them. This indicates an opportunity to support consumers to make a positive impact on the world through their investment decisions.

However, our research also shows that there is more to be done to help consumers understand how the financial services industry is responding to issues such as climate change, including the way in which pensions are managed. For example, based on a nationally representative sample of UK consumers in 2022[1], we found that almost two in five consumers (38%) believe that investing responsibly carries higher risks. When examining Royal London's own customers in 2023, we found that:

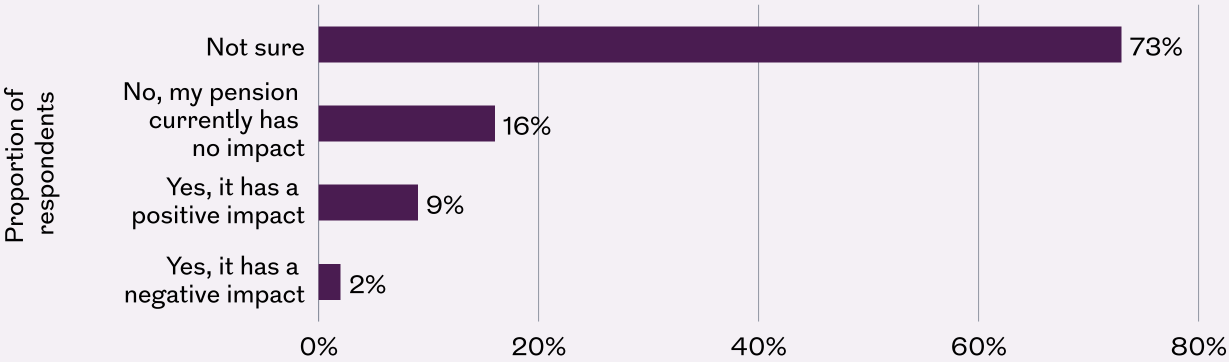
- many of our customers (73%) do not know if their pension has an impact on climate change (see Figure 1, on page 21)
- approximately a third (34%) said they trust Royal London to have a positive impact on society and the environment (see Figure 2).

As part of continuing to strengthen our customer communications, we are working to publish our Climate Transition Plan in 2025. This will detail how we plan to progress our climate commitments and support our work to ensure that customers are clear about what we are doing. More immediately, we will update our customer and adviser websites in 2024 to add greater clarity on our climate commitments, and we will continue sharing insight through our regular communications with customers such as our monthly 'Pelican Post' customer newsletter.

1. Source: Royal London research based on a nationally representative sample of 4,000 UK consumers. Latest study conducted June 2022.

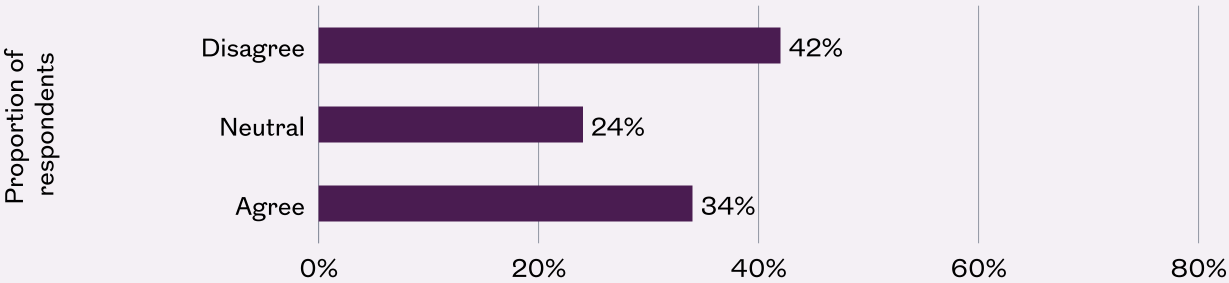
Climate-related concerns *continued*

Figure 1
Research question: Do you believe your Royal London pension(s) currently has an impact on climate change?



Source: Royal London Customer Relationship Study (November 2023), based on 2,246 Royal London customers.

Figure 2
Research question: Would you say you agree or disagree with "I trust Royal London to have a positive impact on society and the environment"?



Source: Royal London Customer Relationship Study (November 2023), based on 3,528 Royal London customers.

Monitoring customer outcomes

The UKCC helps to ensure our customer outcomes are in line with our Purpose, strategy and Customer Outcomes Policy. The UKCC monitors and oversees the experiences and outcomes of our UK customers, including:

- our customer service
- our vulnerable customers' experiences
- actions based on customers' and advisers' behaviour
- supporting the assessment of customer outcomes by our Chief Customer Officer
- co-ordination of collaborative cross-functional activities aimed at delivering good customer outcomes.

UKCC attendees during 2023 include our Group CEO, Group Chief Commercial Officer, Group Chief Marketing Officer, Group Chief Operating Officer (COO), Group Chief Risk Officer and Group Chief Audit Officer.

Following the publication of the final Consumer Duty regulations in 2022, we reviewed our policies and processes. We enhanced the arrangements already in place to focus on customer outcomes by implementing our new Group Customer Outcomes Policy in 2023 (find further detail in Principle 5 (Review and Assurance)).

In 2023, we launched our Consumer Tracker to investigate UK consumers' priorities thrice annually. The insight into the wider consumer context enables us to better monitor our own customers' outcomes by deepening our understanding of what consumers across the UK are experiencing, and how this compares to the current and potential future needs of our customers. Similarly, our biannual Employer Relationship Study enables us to gain direct feedback from employers on how they feel Royal London is delivering against the needs of their employees.

Reflecting customer needs in our stewardship and investments

Stewardship

Customer research commissioned in 2020 and 2021 informed the update of our Investment Philosophy and Beliefs, which in turn informed the development of our Stewardship and Engagement Policy.

The research described above will inform the 2024 triennial review of the Stewardship and Engagement Policy, as well as our review of our engagement priorities.

How we invest for our customers

Strategic asset allocation and customer needs

Our customers have a wide range of terms to maturity: from workplace pension policyholders in their twenties, through policyholders expecting to access their savings imminently, to those past retirement and in decumulation strategies. We must appropriately steward all our customers' assets over both the short term and for decades to come.

As discussed earlier in this section where we describe the different life stages, our customers' risk profiles differ by product and also across customers holding the same products. These considerations impact our approach to stewardship. We balance our strategic asset allocations to allow for different customer needs and risk profiles. Quantitative investment modelling is used to identify the appropriate mix of asset classes and geographies, selected from the available investment universe. For each separately identified investment portfolio, this analysis determines the strategic asset allocation (SAA) benchmark and risk budget that is then mandated to our investment manager.

In addition, we consider the variety of impacts our wider stewardship activity will have across our customer base. For example, divestments may lead to materially different outcomes for our customers depending on their products' risk exposure and the individual's expected terms.

Our products and services

For the last 15 years, the flagship unit-linked vehicle for our customers has been the Governed Range. The Governed Range currently represents the most significant proportion of RLMIS' total AUM, with £60bn AUM as at year end 2023. As a mutual, we also have significant investment in our long-term With-Profits funds. Throughout this section, we therefore focus most on the Governed Range and long-term funds. Find further detail on our stewardship approach across different assets in Principle 7 (Stewardship, investment and ESG integration).

Our flagship Governed Range offers a spectrum of 14 risk-graded, multi asset portfolios, designed exclusively for UK savers. This range of portfolios helps us to optimise customers' outcomes, with each portfolio managed to a specific risk target and designed to suit customers at a specific point in their journey towards and beyond retirement. Each portfolio is actively managed by highly experienced investment experts, including economists, strategists and fund managers. The regular management includes annual SAA reviews, monthly rebalancing and tactical asset allocation changes, and active stock selection to optimise customer outcomes. Our Governed Range has a 15-year track record of delivering good performance, strong governance and risk management.

The Governed Range invests in a variety of asset classes, including global equities, property, commodities, fixed income (corporate and sovereign) and cash. The blend of asset classes in each portfolio depends on the investment time horizon and risk preferences of the policyholders that each solution is designed for.

We offer lifestyle strategies, including a default strategy for automatic-enrolment workplace customers, constructed from our multi asset Governed Range portfolios. The objective of our lifestyle strategies is to gradually transition customers towards investments which are appropriate to their intended retirement plans, helping protect the money they have spent years saving.

Customers invested in lifestyle strategies are gradually transitioned through our Governed Range portfolios during the 15 years prior to their retirement. We believe this gradual glidepath towards retirement mitigates the market risks associated with changing investment strategy. In this way, the time horizon of our customers' savings maintains alignment with their term to retirement.

For example, our Workplace Pensions default customers are invested in the Balanced Lifestyle Strategy. This strategy starts in a long-term balanced-risk portfolio that is around 90% invested in risk-seeking assets. Once in retirement, customers move into our Governed Retirement Income Portfolio range, which is designed specifically to support income drawdown.

Our With-Profits policyholders are invested across our Long-Term Funds (LTFs). The investment strategy applying to each LTF is subject to the fund's Principles and Practices of Financial Management (PPFM), which are documents specifying how each fund will be managed. For example, the aim of the investment strategy of the Royal London Fund, in accordance with its PPFM, is to optimise the long-term return on investments for With-Profits and deposit administration policyholders, while recognising the need for the fund to meet its guaranteed liabilities and commitments to policyholders.

The SAAs for our Governed Range and LTFs are fundamentally defined by the need to balance investment returns for customers, allowing for their expected investment timeframes and risk profiles. In 2023, we continued to use Moody's Analytics proprietary tools to support our SAA. We also continued utilising Moody's Analytics climate scenarios. While we acknowledge the limitations of these scenarios, we have – since 2022 – integrated climate scenario analysis into our SAA processes across all our multi asset funds. Further ESG-related considerations applying to our investments are described under Principles 7 (Stewardship, investment and ESG integration) and 8 (Monitoring managers and service providers).

Beyond the Governed Range and the LTFs, we have some longstanding customers in older products and investment solutions, and some in our Matrix Range. Our Matrix Range is a range of externally managed equity funds that we select and monitor for customers who wish to invest in funds beyond those directly managed by Royal London Asset Management. The management of longstanding investments follows a similar philosophy to that described above for our Governed Range, including consideration of suitable investments for customers with different time horizons. A growing number of these products are being migrated to investments in the Governed Range or the Global Multi Asset Portfolios, a range of funds run by Royal London Asset Management on the same asset allocation as our Governed Portfolios.

Proposition development

Our customer research also informs our proposition development activities. For example, in 2024 we are undertaking a review of our investment proposition, examining how this aligns to the needs of customers and the advisers that support them. Our customer research is a key input for this strategic review.

More generally, we will continue to evolve our propositions to reflect the changing views of our customers by reviewing our asset allocation mix, portfolio construction and related stewardship policies when necessary.

Supporting our customers

Communicating on investment performance and stewardship

Communication with our customers is key to ensuring that they know we are there for them when it counts. We do this in a variety of ways, including:

- our Royal London website
- our AGM
- annual policyholder statements
- our Annual Report and Accounts
- fund factsheets
- our climate (TCFD) reporting
- customer newsletters
- our mobile app
- advertising in the media
- social media platforms
- our Stewardship Report.

We use our website (www.royallondon.com) to keep our customers up to date with how we are actively addressing key issues that may have an impact on the investments we hold on their behalf. Our customers can access policy statements and fund factsheets from our Royal London website, and we send annual pension statements to pension customers in line with regulatory requirements. Our fund factsheets include a breakdown of the asset allocation and top fund holdings. Typically, they will include a geographical and sector split, where the data is available.

In addition, we publish data sheets for the Governed Range. These include strategic asset allocation and tactical asset allocation splits, performance attribution and proportional asset class splits within each underlying strategy. Although we do not currently include responsible investment information on the factsheets or data sheets, we recognise that this is key for communicating our investment beliefs, highlighting our investment priorities, and for ensuring our customers know their values are considered. We currently publish this data in our Task Force on Climate-Related Financial Disclosures (TCFD) product-level reports, which are available to our customers on our website. Through the wide range of communications described above, we provide our customers and members with a transparent, in-depth view of how RLMIS actively considers and manages their specific needs and outcomes.

Supporting better customer outcomes

Within RLMIS, we continue to evolve how we engage with our customers, aiming to improve communication and help drive better customer outcomes. Here are examples of steps we took in 2023:

- We ran campaigns and supported national events, such as Pensions Awareness Week, that encouraged customers to check their pensions and, where appropriate, take action.
- Our monthly 'Pelican Post' newsletter included articles and guides educating customers about their pension and supporting them with cost of living challenges.
- We continued our quarterly webinar programme, covering a wide range of pensions and tax content.
- We launched a pension transfer hub for customers, with a digital transfer process that makes transferring a pension easier.
- For the tax year end, we added guides and articles to our customer website to help customers understand their pension's tax benefits.
- We ran a campaign to educate customers about our mutuality and how Royal London is customer owned, including detail on how customers can vote at Royal London's AGM.
- We continued to promote our financial wellbeing service, highlighting its key features such as the benefits calculator – find further detail below on this page, in the 'Supporting customers' financial wellbeing' section.
- To help employers build their employees' financial resilience, we strengthened our employer campaign toolkit and continued sharing our 'Pension Matters' email with approximately 31,500 employers.

As part of our Consumer Duty activities, in 2024 we are continuing to carry out testing on our regular communications to make sure they are understandable for customers.

Helping customers understand their risk attitudes

We offer a tool to help customers quantify their attitudes towards investment risk. This tool is based on a bank of questions designed by UK risk profiling company A2Risk and has been calibrated against a sample of the UK population. Quantifying customers' attitudes to risk enables us to map them objectively to suitable portfolios, which have been individually risk rated by independent agencies such as Defaqto and Distribution Technology.

Supporting customers' financial wellbeing

We use customer research and feedback to improve the support we provide to our customers across a number of financial wellbeing tools. For example, in 2023, we continued to make enhancements to our mobile app. This included adding articles and guides on key topics such as budgeting, cost of living and bereavement. Through the app, customers can also gain access to other support tools that help them understand how much they could be entitled to from their State Pension, their attitude to risk, and access to our financial wellbeing service.

We launched our financial wellbeing service, FinWell, in 2022 to empower customers to take control of their finances and improve their wellbeing. FinWell is available through our mobile app, eService and employer microsites. FinWell supports customers to understand the steps they need to take to plan for their future, helping alleviate concerns about how they would cope in times of ill health, job loss, and the uncertainty of retirement. The key features of FinWell are explained on our website, at adviser.royallondon.com.

As at 31 December 2023, more than 15,000 customers had completed a financial health check, and we also helped customers to identify approximately £6.8m in annual benefit eligibility through the State Benefit calculator tool.

Our customer service colleagues provide additional support to customers if they express financial difficulties or low financial capability when contacting us. Colleagues are trained to signpost customers to a variety of external organisations that can provide specialised support depending on a customer's needs. We have partnered with the national charity Turn2us, which aims to end financial insecurity in the UK. Our partnership allows us to financially support an organisation closely aligned to our Purpose, while simultaneously offering many of our customers with low financial wellbeing connection to a specialised support organisation.

The MyRoyalLondon customer portal is available to our customers with Personal Menu and Business Insurance products. In 2023, this portal provided a direct link to the Royal London website, where customers can access our 'Cost of Living' advice hub. Customers can also access our 'Helping Hand' service. This is our package of health and wellbeing services, which includes free 24-hour access to a virtual GP. In 2023, MyRoyalLondon provided customers with an easy-to-understand overview of their cover and helped customers to keep their personal details up to date through self-service functionality. Customers can now view and download their key policy documents and contact us using a secure online form if they need extra help or support.

Principle 7

Stewardship, investment and ESG integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Our stewardship priorities

In Principle 6 (Client and beneficiary needs), we addressed how we gather information to better understand our customers and how this impacts our stewardship activity to ensure favourable outcomes. Based on listening to our customers, we prioritise two themes within our asset owner stewardship and engagement activity[1]: climate change, and inclusion (focused on a just transition).

We know that a large portion of our customers are invested over a longer term. Consequently, we recognise that they are materially exposed to risks arising from climate change. As climate change disproportionately impacts lower income communities and nations, climate action must be as fair and inclusive as possible to everyone concerned. A 'just transition' supports an inclusive economy and seeks to avoid exacerbating existing injustices or creating new ones. It aims to create decent employment opportunities, provide social protections, and offer everyone equal access to affordable energy as we move to a cleaner future.

You can find further detail and case studies of how we consider these priority themes across our stewardship and engagement activity under Principle 9 (Engagement). In 2025, we will review our priorities, taking into account the latest available customer research.

Stewardship approach

Our Investment Philosophy and Beliefs defines our approach to investing on behalf of customers and describes the investment beliefs we apply when designing or reviewing investment mandates for RLMIS funds and portfolios. This is then captured within the Investment Management Agreement that is established for each fund or portfolio.

We believe that we should act as a responsible steward of the assets we invest in on behalf of our customers, who rely on us to adopt a responsible investment approach – in line with our legal duty and responsibility as a mutual insurer.

A key element of good stewardship is the regular, ongoing engagement with our asset managers and, through them, with the companies in which we invest on behalf of our customers. As active stewards, we utilise our voting rights as part of our overall stewardship approach.

Our engagement approach is set out in our Stewardship and Engagement Policy, which provides a clear strategic and operational framework that sets expectations, defines roles and responsibilities, and identifies the governance and interactions required to track progress and make decisions to adjust as needed. The Thor Industries case study on page 26 provides an example of how Royal London Asset Management engages in accordance with this policy, in alignment with our climate change engagement priority.

Our Stewardship and Engagement Policy applies equally to all our investments, across all geographies, though in practice the application varies by asset class, reflecting the variety of opportunities to engage.

We exercise strong oversight of the asset managers we appoint to manage assets on our behalf, as described in Principle 8 (Monitoring managers and service providers).

RLMIS expects asset managers to exercise the full range of shareholder rights and responsibilities on our behalf. We also expect all our asset managers to become signatories of the following initiatives: UN Principles for Responsible Investment (UN PRI), FRC UK Stewardship Code 2020, and the Net Zero Asset Managers initiative.

Furthermore, our customers' needs and investment preferences are carefully considered, as described in Principle 6 (Client and beneficiary needs), before we finalise and communicate our requirements to asset managers through our mandates. Under Principle 6, we also set out how we consider the time horizon of our customers' investment strategies and how we can match our products to their needs.

Royal London Asset Management manages over 95% of our assets, as noted previously, and as such this section primarily focuses on our investments with our asset manager.

1. These themes guide RLMIS' proactive engagement with investee companies and other bodies, and do not guarantee that our products will try to meet these objectives individually – if you are seeking a particular outcome, always check the product documentation to ensure it will meet your needs.

Thor Industries: Encouraging acceleration for electric vehicle opportunity

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

Since owning stock in the company, Royal London Asset Management has engaged with Thor's senior management to encourage its electrification strategy and enhance the company's overall sustainability proposition:

- **Scope 3 emissions reduction plan:** With 99.5% of Thor's emissions falling under Scope 3, Royal London Asset Management urged the company to disclose and plan for reducing these emissions. The Chief Operating Officer (COO) shared insights on working with suppliers to assess supply chain emissions, indicating readiness to publish Scope 3 data and supply chain initiatives. Thor has since published its latest sustainability report in which it disclosed its Scope 3 emissions, as well as Science Based Targets initiative approved and verified Scope 1, 2 and 3[1] targets covering material emissions categories.
- **Electrification roadmap:** Thor's CEO and COO recognise electrification is crucial for the company's sustainability and strategic agenda. The main challenge lies in developing sufficient charging infrastructure. Royal London Asset Management encouraged Thor to release a detailed electrification roadmap, highlighting milestones for investors to track progress.

Royal London Asset Management remains committed to supporting Thor Industries' management in its electrification journey, aiming to preserve and enhance long-term value for our clients.

1. **Scope 1:** Greenhouse gas (GHG) emissions directly resulting from our business activities. For example, from company cars and direct emissions from air conditioning units. **Scope 2:** Indirect GHG emissions through our energy consumption. For example, resulting from fossil fuels burned to produce the electricity used to provide heat, light and power technology within our offices. **Scope 3:** All other GHG emissions indirectly produced as a result of our business activities.

Equity

We want to be a responsible owner of the companies we invest in, consistent with our Purpose-led ambition to influence real-world change. Voting and engagement are central to making this happen. As an asset owner, we expect our asset managers to vote on resolutions in company holdings managed on our behalf.

We view voting and engagement as inextricably linked, with voting serving as both a starting point and an escalation technique to complement engagement. Although we favour engagement over exclusions, in specific circumstances we will exclude certain companies in line with our Exclusions Policy, as explained further below. We recognise the need to focus our resources on activities where we can have the most influence and impact. This is something we are continuously reviewing.

Equities are a significant part of our investment portfolio which Royal London Asset Management invests in on our behalf. Royal London Asset Management embeds its quantitative equity solutions to make forward-thinking and nuanced investment decisions. Quantitative equity solutions aim to provide market-like returns, using a portfolio that has a better ESG profile than the market it is aiming to replicate. This helps to balance the need to meet financial and risk objectives as well as demonstrate progress towards addressing climate change and long-term ESG issues.

Equity tilts

We take an active approach to managing equity funds. Historically, this was achieved by blending a core of passive equity investments with additional, actively managed funds. To help progress towards our net zero climate commitment[1] and more fully embed ESG considerations into our investment decision making, we have worked with Royal London Asset Management to instead start favouring 'tilted' funds since August 2021. Tilted funds prioritise or de-emphasise the weight, or amount we hold in certain stocks, based on ESG criteria.

The objective of our tilted funds is to deliver returns in line with the 'traditional benchmark' while improving the ESG profile of the fund. To ensure the former performance objective continues to be met, active risk limits apply. To avoid a conflict with the latter objective, the funds also target a minimum carbon emissions intensity reduction relative to the underlying index. With awareness of the sectoral composition of different markets (such as IT, healthcare, energy etc.), this minimum is different for funds invested in different geographies – for example, 30% reduction for funds that invest in US companies and 10% for funds that invest in UK companies.

As at 31 December 2023, there was a 25.3% reduction in the Weighted Average Carbon Intensity[2] of Royal London Asset Management's regional pooled funds versus their benchmarks.

Our decision to start favouring tilted funds was driven by the belief that the full extent of the transition to a low-carbon economy is not yet priced into markets, and we can better protect the value of our customers' investments by taking a more active investment approach. This is consistent with our philosophy of engagement over divestment. Furthermore, in addition to reducing the carbon intensity of our investments, this more active management approach will give us the flexibility to adjust our exposure to companies with poor social practices or corporate governance issues.

We continue to review and refine our approach to tilted funds. Recognising the limitations of portfolio-level emissions data currently available, we continue to seek out best-in-class investee company emissions figures and expert insight, updating impact assessments as data quality develops. As methodologies and data availability improve, our tilting may include forward-looking assessments of companies' climate credentials and other ESG-related factors.

You can read more information on equity tilts and how Royal London Asset Management uses its voting power to positively influence corporate behaviours on our behalf in Royal London Asset Management's Stewardship and Responsible Investment Report 2023, available at www.rlam.com.

1. For detail of Royal London's climate commitments, see our Climate Report 2023, available at www.royallondon.com.
2. This is a measure of a portfolio's exposure to carbon-intensive companies, expressed in tCO_2e/$m revenue.

Fixed income, including corporate bonds

Our fixed income allocation is invested largely in direct bond holdings and Royal London Asset Management's in-house fixed income funds. Risk management is an essential part of the investment process, and we believe that it is only by combining the assessment of factors of liquidity and credit quality – along with ESG issues – that we can build a robust picture of the risks and opportunities of any individual investment. As such, Royal London Asset Management's Credit team works closely with its Responsible Investment team to investigate any significant ESG risks and understand how this may impact the ability for the borrower to repay. The consideration of ESG risk as part of the investment process, or otherwise known as ESG integration, does not mean the fund is trying to achieve a particular positive ESG outcome.

Money market instruments, such as cash, bank deposits or short-term fixed interest securities, are assessed similarly.

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

Although as bondholders we are not the owners of the companies we lend to, engagement with issuers remains a key aspect of corporate bond investing, whether to enhance our understanding of credit risks through engagement for information, or as stewards of our investments, through engagement for change. Central to Royal London Asset Management's approach to effective engagement is a focus on those sectors and issuers that are most reliant on long-term debt financing (which enhances our ability to influence) or on those that are not equity listed (which enhances the scope for information discovery).

Shaftesbury plc: Effective governance

Effective governance is vital in navigating financial market complexities. Royal London Asset Management has significant exposure to Shaftesbury plc, through bonds secured on buildings in London's West End.

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

Although the Shaftesbury bonds were unrated, they benefitted from security, comprehensive covenants on asset and income cover, and detailed 'change of control' provisions. These pre-emptive controls provided Royal London Asset Management with significant rights as creditors, mitigating the typical risks associated with M&A transactions as well as general volatility in commercial property markets.

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

Annuities: Integrating ESG considerations

In 2023, we integrated ESG considerations into our investment decision making when selecting assets to back our annuity liabilities. ESG considerations are factored into the credit ratings for public credit assets. As at 31 December 2023, approximately 90% of our Matching Adjustment portfolio assets were fixed interest credit assets managed on RLMIS' behalf by Royal London Asset Management. For the remaining assets, commercial real estate loans and private placements, ESG is integrated into the internal rating approach, analysis and decision making, supported by independent third-party review and due diligence.

Commodities

We do not own physical commodities. Instead, we hold exposure to commodities through 'commodity futures', which enable producers and consumers to use agreed prices at a specified future date. Commodity futures are a type of derivative instrument that play an important role in the global economic system and provide pricing stability across crucial energy, metals and agricultural commodity markets. The sellers of commodities, for example grain farmers or mining companies, benefit from receiving a guaranteed price to sell their product, giving them more certainty and less risk of a sudden or unexpected price drop. On the flip side, these sellers miss out on the benefit if prices rise. Commodity futures do not directly impact the production or consumption of commodities. However, speculative trading by other market factors may impact commodity prices in the real economy. Investing in commodities as part of a risk-controlled multi asset portfolio provides diversification as commodity returns generally have a lower correlation with other risk asset classes, providing some resilience in higher inflation scenarios.

Property

Access to in-house property funds is a key and distinctive part of our multi asset offerings. RLMIS' property funds, managed by Royal London Asset Management on our behalf, ensure that sustainability and carbon footprints are fully integrated into asset management and development activities, and consider ESG aspects when considering new acquisitions.

Through Royal London Asset Management, we aim to buy and develop high quality premises, delivering strong, long-term returns to our customers. ESG integration is key in determining which properties to buy and sell, as well as minimising the negative impact these have on the local environment and communities through ongoing property management.

In 2023, Royal London Asset Management published its first Property Net Zero Carbon Pathway Progress Report for professional clients (available at www.rlam.com), setting out the progress made since its original Property Net Zero Carbon Pathway in 2021. In 2024, Royal London Asset Management published its Responsible Property Investment (RPI) Report for professional clients, providing an update on the progress made over 2023 in delivering against its RPI Strategy (available at www.rlam.com). More information on how Royal London Asset Management integrates stewardship in property funds is provided in Royal London Asset Management's Stewardship and Responsible Investment Report 2023, also available at www.rlam.com.

Stewardship activity in emerging markets

Royal London Asset Management offers an ESG-screened index-tracker fund. The fund tracks an ESG benchmark made up of companies that have the highest ESG performance in each sector of the wider MSCI Emerging Markets Index.

The Earnshaw: Helping occupiers fulfil sustainability commitments

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

- **Eco-friendly design:** Transitioned to a fully electric building with solar panels, targeting a net zero carbon operation.
- **Wellbeing enhancements:** Emphasised natural daylight for energy efficiency and occupant health, and installed over 230 bike spaces and end-of-trip facilities for active transport.
- **Certification goals:** Aiming for Energy Performance Certificate (EPC) rating A, BREEAM[1] 'Outstanding' status, and Wired Score Platinum. Targeting WELL Gold certification.

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

1. BREEAM: Building Research Establishment Environmental Assessment Method.

In addition, in 2023 Royal London Asset Management launched its Emerging Market Corporate Bond Fund and Short Duration Emerging Market Corporate Bond Fund for which RLMIS provided seed capital, concentrating on global high yield, multi asset credit and emerging market corporate credit.

ESG integration

Royal London Asset Management integrates ESG risks into its investment processes. ESG integration is strictly about the financial risk management of investments, as distinguished from managing for specific positive environmental or social outcomes. More specifically, it is about considering ESG factors in addition to or in combination with traditional financial risk factors (such as volatility and liquidity), to identify ESG risks and opportunities related to investee companies and funds. The way Royal London Asset Management integrates ESG depends on the strategy of each fund.

Voting

Voting is one of the valuable rights attached to holding shares in a company. A Group-wide Voting Policy was developed in 2023 to be applied across Royal London, setting the parameters for asset owners and asset managers, as described in Principle 5 (Review and Assurance). As asset owners, we delegate the responsibility of voting to our asset managers as part of the investment management process.

Our Stewardship and Engagement Policy, which encompasses our Voting Policy, serves as the foundation for overseeing and influencing the voting decisions made by our asset managers on our behalf. As detailed under Principle 5 (Review and Assurance), this policy outlines the stewardship and engagement principles we uphold as asset owners, the expected actions from our asset managers concerning our key engagement themes and guides our oversight processes.

Our policies are applicable across all geographies. More information on our voting activity and how we engage with our asset managers in relation to voting is provided under Principle 12 (Exercising rights and responsibilities). This includes a description of our 'Reserved Voting' process.

Our process for monitoring the voting activities of our asset managers is detailed under Principles 8 (Monitoring managers and service providers), 11 (Escalation) and 12 (Exercising rights and responsibilities).

Royal London Asset Management's voting activity

Royal London Asset Management's investee company voting and engagement activity applies to both active and passive investments across all eligible equity funds. In addition, its engagement activity is not limited to equity holdings, but extends to engagement on our behalf as bondholders. Royal London Asset Management's voting and engagement activity is carried out on behalf of RLMIS as well as external clients.

More detail on Royal London Asset Management's stewardship activity, undertaken on behalf of all its clients, is available in its Stewardship and Responsible Investment Report 2023, available at www.rlam.com. Its voting records can also be searched on the Royal London Asset Management, Responsible Investments Voting Records webpage, available at www.rlam-voting.co.uk.

Engagement

As described in Principle 1 (Purpose, strategy and culture), we seek to achieve three Purpose outcomes, including moving fairly to a sustainable world. We engage with our asset managers to work collectively towards meeting these objectives.

To guide proactive engagement with investee companies, we inform asset managers of the engagement themes we require them to follow for our segregated mandates, and that we request they follow in their pooled funds. Furthermore, in line with our net zero portfolio commitments[1], we have engaged with our asset managers to ensure ESG considerations are integrated across our portfolio. More information is provided under Principle 9 (Engagement).

In 2023, aligned to our engagement themes, we identified three priority areas for proactive engagement with policymakers, industry groups and regulators. These policymaker priorities have helped guide our engagement towards specific outcomes, and are set out in more detail under Principle 4 (Promoting well-functioning markets).

Exclusions

In accordance with our Exclusions Policy, no fund within our AUM will knowingly invest in corporate equity and/or debt of a company or group involved in the manufacture and sale of cluster munitions, anti-personnel landmines, or biological and chemical weapons. While we recognise that we cannot compel the managers of our pooled funds to conform to the RLMIS Exclusions Policy, we monitor exclusions as described under Principle 8 (Monitoring managers and service providers).

As we prioritise engagement over divestment, we do not include any further topics within our Exclusions Policy. For further information on why we prefer to stay invested with certain controversial industries and concentrate on engagement, before escalating to exclusions or divestment, see Principle 11 (Escalation). We will, however, continue to monitor our customers' preferences, as described under Principle 6 (Client and beneficiary needs) and keep our Exclusions Policy under review.

Sustainable funds

Royal London Asset Management has a long-term track record in sustainable and responsible (or ESG) investing. Its sustainable fund range invests in companies that have a positive impact on society and strong ESG credentials, while maintaining the potential to outperform with strong returns over the long term. For example, its sustainable fund range offers clients across the risk spectrum an award-winning approach to sustainable investing. And through its transitions strategy, clients can invest in companies that may not be considered sustainable today, but are making a meaningful improvement over time. More information on Royal London Asset Management's approach to sustainable investing and equity transitions can be found on its website at www.rlam.com.

Seeding new funds

As a subsidiary of RLMIS, Royal London Asset Management benefits from our support, including through the seeding of new funds. RLMIS seeded two new Emerging Market funds in 2023, the Emerging Market Corporate Bond Fund and Short Duration Emerging Market Corporate Bond Fund, as referenced above. The seeding also benefits Royal London, for example, through the revenue generated and by creating scale to implement investment strategies.

1. For detail of Royal London's climate commitments, see our Climate Report 2023, available at www.royallondon.com.

Principle 8

Monitoring managers and service providers

Signatories monitor and hold to account managers and service providers.

Asset Manager Oversight Framework

The Group's Asset Manager Oversight Framework incorporates three core pillars:

- Performance
- Responsible Investment and Climate Change (RICC)
- Operations and due diligence.

Within the RLMIS RICC Oversight Framework, we include three tiers of oversight, in line with the materiality of our exposure. Each level determines the frequency and sophistication of our oversight activities.

Our asset managers are split across three levels:

Tier 1

All asset managers

All 29 asset managers with RLMIS customer investments are subject to our Tier 1 arrangements.

Tier 2[1]

Key external asset managers

Additional Tier 2 'enhanced oversight' arrangements apply to seven asset managers, who manage over £100m each on our behalf.

Tier 3

Royal London Asset Management

Royal London Asset Management, which manages over 95% of our customers' assets, is subject to our Tier 3 'advanced monitoring' arrangements, in addition to Tier 1 and 2.

The RLMIS RICC Oversight Framework focuses on policy, resources, ESG integration, climate and stewardship aspects including voting, engagement and exclusions. Where any material concerns are identified we ask our asset managers to 'comply or explain'.

We conduct a baseline assessment via an asset manager questionnaire covering topics including ESG integration, governance arrangements, voting, stewardship and engagement, exclusions and climate. This RICC baseline assessment questionnaire is issued annually to our Tier 2 and 3 asset managers. Following receipt of the completed questionnaire, we undertake a review to identify any areas for discussion and challenge, where appropriate. All our Tier 1 asset managers receive a standard due diligence questionnaire, which includes a number of RICC questions.

In addition to the baseline assessment, we receive supplementary information and data for our Tier 2 and 3 asset managers. This identifies any areas for discussion or challenge in formal biannual stewardship meetings with these key asset managers. We undertake further analysis for the following areas:

- **Voting:** Quarterly voting data is requested from Tier 2 key external asset managers as well as details of any 'notable' votes for analysis against Royal London's votes. In addition, the voting policies of Tier 2 and Tier 3 asset managers are compared against those of Royal London.
- **Exclusions:** RLMIS' Exclusions Policy sets out our exclusion criteria as follows: *"No fund will knowingly invest in corporate equity and/or debt involved in the manufacture of cluster munitions, anti-personnel landmines, or biological and chemical weapons."* Although RLMIS cannot compel the managers of our pooled funds to conform to the RLMIS Exclusions Policy, we do require annual confirmation that all Tier 1, 2 and 3 asset managers comply with or explain which aspects of our policy cannot be met. For segregated mandates managed by Royal London Asset Management on our behalf we expect full compliance with our Exclusions Policy. In addition, on a biannual basis we review Tier 2 and 3 asset managers' fund holdings against our Exclusion list using MSCI exclusion data for any policy breaches. Assessment and findings are presented at stewardship meetings with appropriate actions agreed where necessary.
- **Engagement:** Tier 2 and 3 asset managers' engagement policies, priorities, escalations and reporting processes are reviewed against RLMIS engagement themes.
- **Climate:** Partly covered through the RICC baseline assessment, this includes review of Tier 2 and 3 asset managers' approach to climate change policy. Asset managers are also assessed on their climate target disclosures and whether they have a publicly available climate transition plan.

1. From 2024, we are expanding and enhancing our Tier 2 oversight arrangements to also include the external asset managers who manage the Matrix funds, which are a range of equity funds that RLIMS select and make available for customers who wish to invest in funds beyond those directly managed by Royal London Asset Management.

The RLMIS RICC Oversight Framework

Initial assessment	External validation	Additional validation (Royal London Asset Management only)
Area 1: Baseline assessment	MSCI ESG fund manager ratings	Audit findings
Area 2: Voting	ShareAction	Compliance reports
Area 3: Exclusions	UN PRI assessment	Breach reporting
Area 4: Engagement	UK Stewardship Code	
Area 5: Climate	TCFD	

Alongside the initial assessment, we cross-check against sources of external validation to assess our Tier 2 and 3 asset managers. These sources include but are not limited to MSCI data on ESG fund manager ratings, ShareAction reports, UN PRI assessments, and disclosure against the FRC's UK Stewardship Code 2020 and the FCA's TCFD requirements.

Beyond this, additional validation is undertaken to gain further insight into the activity of the Group's asset management business, which sits within Tier 3 of our Asset Manager Oversight Framework. We review any audit findings, compliance reports, breach reporting and other similar sources of information.

Formal biannual stewardship meetings are conducted with our Tier 2 and 3 asset managers, parts of which are informed by analysis of MSCI data for the funds that they hold on behalf of RLMIS. At these meetings, we:

- focus discussions on key metrics from our oversight framework, including the main RICC oversight areas of voting, exclusions, engagement and climate, and expectations such as monitoring progress towards net zero commitments
- discuss any changes to our policies, procedures or stewardship requirements
- discuss any current or upcoming regulatory changes and discuss the outcome of monitoring activities.

We continue to refine our framework to reflect good practice as industry data quality and policy expectations evolve. Looking ahead, we are starting to use data analytics to enhance our ability to assess and oversee the ESG aspects of our asset managers and funds. We are considering how aspects such as biodiversity and nature metrics are incorporated within our framework.

Consideration of climate risk

As part of the RLMIS RICC Oversight Framework and to support our climate commitments, we monitor our asset managers against the following expectations on a 'comply or explain' basis:

- develop a climate transition plan and demonstrate progress against climate commitments
- exercise their voting rights on all eligible investments, and monitor their voting in line with the principles of our Voting Policy
- set clear investor engagement priorities on climate change, taking into consideration their level of influence (the size of their investments) and the materiality of climate change to company risk and performance
- meet certain criteria relating to climate risks, such that if there is a material concern and engagement activity is exhausted without a resolution, then this could trigger a divestment of holdings.

These criteria are taken into account alongside a broader set of expectations and requirements when considering whether to onboard or retain asset managers, with the RLMIS Investment Committee holding responsibility for final approval. We seek to validate the information provided to us by cross-checking against third-party data.

Through analysis of MSCI data we monitor the climate transition of our Tier 2 and 3 key asset managers using a number of metrics. We continue to develop our understanding of climate metrics and analyse the climate transition plans as they become embedded.

Monitoring Royal London Asset Management

The performance of Royal London Asset Management is subject to RLMIS' highest level of oversight, with more rigorous checks than on RLMIS' external asset managers due to the high proportion of RLMIS assets it manages.

Two assessments are implemented to ensure Royal London Asset Management's appropriateness to manage the majority of our assets. One assessment is an ongoing review of our asset managers' responsible investment capabilities, conducted via the RLMIS RICC Oversight Framework. This involves detailed questionnaires and enhanced ongoing monitoring of Royal London Asset Management's responsible investment activity. The other is a triennial assessment of its suitability.

Triennial assessment

Every three years, RLMIS performs a more detailed review of the Group's asset management business, consolidating all the ongoing oversight we perform, collating feedback from key stakeholders and performing a fees analysis. The last assessment was completed in 2022 and the next assessment is due in 2025.

Based on our oversight activity, we concluded that Royal London Asset Management's responsible investment and climate change approach is robust and aligns with our policies and industry standards.

Asset manager selection and ongoing assessment

We have a formal assessment approach covering our standards, expectations and requirements when selecting and considering whether to adopt or retain asset managers, with the RLMIS Investment Committee holding responsibility for final approval.

Our initial selection process and ongoing assessment of managers includes an assessment of their responsible investment and climate change activities through a due diligence questionnaire.

For new asset managers to be considered, we require them to be signatories to the UK Stewardship Code 2020, the UN PRI and the Net Zero Asset Managers initiative. We seek to validate the information provided to us by cross-checking against data from MSCI on ESG fund manager ratings and other externally available information, including ShareAction reports, UN PRI assessments and UK Stewardship Code disclosures.

In 2023, RLMIS appointed the asset manager abrdn to manage private credit. The appointment was part of our longer-term investment plans, which included entering into other non-publicly traded investments. Our Investment Office team carried out a Request for Proposal with a selection of potential asset managers. This process focused on the capabilities of each asset manager to meet our investment requirements, and abrdn demonstrated that its team has a strong track record of originating and managing private placement credit. In line with Royal London's Procurement and Third-Party Management Policy, a series of due diligence exercises was carried out on abrdn with no issues identified.

2023 development

During 2023, we further developed the RLMIS RICC Oversight Framework to enhance our stewardship approach with Royal London Asset Management and our key external asset managers. We introduced analysis of MSCI ESG Ratings data and of other supplementary information, including assessment of asset managers' internal data, to provide insight into their levels of engagement. The RICC Oversight Framework will continue to be developed as we refine our stewardship approach, as the quality and quantity of available information and analysis improves, and as the regulatory landscape evolves.

Monitoring asset managers in 2023

Our monitoring of asset managers in 2023 found that:

- analysis of MSCI ESG Ratings data, which we use to monitor funds managed by Royal London Asset Management and our key external asset managers, determined that there were no significant areas of concern against the RICC oversight key indicators.
- all Tier 2 and 3 asset managers who manage RLMIS assets were signatories of the Net Zero Asset Managers initiative, UN PRI and UK Stewardship Code 2020.
- all our key external asset managers confirmed that they are broadly aligned[1] to the RLMIS Exclusion and Voting policies
- no breaches were reported by Royal London Asset Management in relation to controversial weapons. We require Royal London Asset Management to notify us if a fund held within one of the RLIMS segregated mandates purchases a company deemed to fall under the category of 'controversial weapons', which is prohibited under our Exclusions Policy.
- our key external asset managers are aligned with Royal London's philosophy of engagement over divestment, based on stewardship meetings. It has been more challenging to measure asset managers' performance on engagement, which is currently undertaken qualitatively, through stewardship meetings.

We also monitor our asset managers' voting decisions, their responsible investment activity and their activity related to climate change, as described under Principles 11 (Escalation) and 12 (Exercising rights and responsibilities).

Overall, through the monitoring of our Tier 2 and Tier 3 key asset managers during 2023, no significant areas of concern were identified. In instances where our analysis triggered further review, management actions were taken. Following this work, we were satisfied that the funds invested by RLMIS on behalf of our customers were not impacted and broadly align to the RICC oversight standards.

As well as our formal oversight procedures, RLMIS colleagues work closely with colleagues at Royal London Asset Management as we further develop our approaches as a Group. For instance, the CEO of Royal London Asset Management Limited sits on Royal London's Group Sustainability Oversight Committee, while Royal London Asset Management's Head of Responsible Investment and Head of Climate Transition and Engagement sit on Royal London's Sustainability and Stewardship Delivery Group.

Our scope of oversight is continually reviewed against industry standards and regulatory changes. For example, we are considering how aspects such as biodiversity and nature metrics are incorporated within our framework. In 2024, our priorities will continue to be the enhancement of our oversight model with a particular focus on establishing biannual stewardship meetings with our Tier 2 and 3 key asset managers, enhancing our RICC due diligence question set, and using available data to enhance our ability to assess and oversee the ESG aspects of our asset managers and funds. We are enhancing our oversight activity of the external fund managers who manage the Matrix Range funds, which are a range of equity funds that we select and monitor for customers who wish to invest in funds beyond those directly managed by Royal London Asset Management.

1. It is only possible to achieve broad alignment with our Exclusions and Voting policies due to the different phrasings used within asset managers' policies. We therefore establish that the overall themes of asset managers' policies broadly align with our own, and that there are no points of misalignment that cause concern.

Monitoring service providers

As described under Principle 2 (Governance, resources and incentives), we use MSCI and AssetQ as data providers to enhance our asset manager monitoring capability, and Moody's Analytics to support scenario modelling.

All our service providers are monitored in line with our Procurement and Third-Party Management Policy, which exists to make sure that all goods and services are procured and governed in a way that:

- manages risk and costs whilst achieving good value
- complies with all relevant regulations
- safeguards Royal London customers and operations from supply chain disruption.

This requires compliance with minimum standards designed to ensure that an appropriate level of oversight and governance is in place. These minimum standards include the completion of inherent risk assessments, contract record-keeping requirements and oversight of suppliers.

We monitor the services provided by MSCI, AssetQ and Moody's Analytics in line with these procedures. As a result of insight from previous monitoring, we continue to take the following steps:

- We have quarterly meetings with our primary provider of financed emissions data, MSCI, to discuss data quality, sample checks, data sourcing and transparency of sourcing, coverage, data methodology and new solutions that MSCI are developing. As our requirement for data is expanding, we have begun to explore the data offering for insights into nature and biodiversity impacts from MSCI and other data providers.
- We continue to work with AssetQ, who has incorporated a greater proportion of sustainability-related questions into its standard questionnaire to asset managers, enabling us to improve our baseline assessments. This includes question topics ranging from sustainability integration through to ESG and engagement. As a result, the standard AssetQ questionnaire now covers a greater number of questions regarding exclusions, voting and engagement.
- We hold quarterly calls with Moody's Analytics to review the service received, and to discuss model updates and other changes. In 2023, we updated some of our modelling assumptions to reflect our latest views, such as on UK equities.

Principle 9

Engagement

Signatories engage with issuers to maintain or enhance the value of assets.

Our approach to engagement

A key element of good stewardship is regular ongoing engagement with policymakers, issuers, asset managers and advisers. Using our position as the UK's largest life, pensions, and investment mutual we can help influence the activity of these stakeholders. Engaging with stakeholders on sustainability-related issues (including climate) also supports our Purpose outcome of 'Moving fairly to a sustainable world'.

We engage with the companies we invest in, through our asset managers, on a range of strategic ESG issues. We believe in an 'engagement-first' rather than 'divestment-first' approach. We remain invested so that we can attempt to positively influence and collaborate with companies we invest in, encouraging them to support a more sustainable future and with the aim of delivering the outcomes that our customers expect.

We also engage with policymakers, regulators, asset managers and other stakeholders to help support the transition to a low-carbon economy, in a way that considers the impact on society and our customers. Our policymaker engagement priorities are set out in Principle 4 (Promoting well-functioning markets). We support this through involvement in industry bodies, including the Association of British Insurers and the Investment Association, as well as groups focused on key stewardship issues, such as the Institutional Investors Group on Climate Change and Financing a Just Transition Alliance.

Asset classes

As described under Principle 7 (Stewardship, investment and ESG integration), our Stewardship and Engagement Policy is applied in different ways depending on the asset class. In line with this policy, we delegate investee engagement to our asset managers and oversee progress in accordance with our Asset Manager Oversight Framework. We recognise good practice in investee engagement is still developing in certain asset classes, primarily outside of listed equity and corporate debt. For example, Royal London Asset Management engaged with key entities like the Bank of England and the UK's Debt Management Office, contributing to discussions on green issuance programmes and providing feedback on report structures. We continue to explore how we can support our asset managers in expanding the scope and effectiveness of engagement to other asset classes as views on good practice evolve.

Voting

Our Voting Policy sets out the parameters within which asset owners and asset managers should operate, as referenced under Principle 5 (Review and assurance). We require all asset managers to comply with this policy or explain why they cannot do so, as explained in Principle 7 (Stewardship, investment and ESG integration).

Engagement through Royal London Asset Management

Royal London Asset Management undertakes engagement activity for the assets it manages on our behalf. Its engagement[1] can take two forms: engagement for information, or engagement for change.

Royal London Asset Management chooses which companies to engage with using one or more of the following criteria:

- address a Principal Adverse Impact or poor governance
- meet the needs and expectations of clients
- material and relevant to investment decisions
- central to a 'transition thesis' that drives beneficial investment and societal outcomes
- is likely to have a positive effect on society and the environment
- has the potential to impact corporate ESG or financial performance or reduce risk
- raises best practice standards within a sector or market
- adds value in advancing thought leadership and good governance.

Royal London Asset Management provides updates on its stewardship activities through an annual Stewardship and Responsible Investment Report, available at www.rlam.com.

1. Engagement topics and outcomes will vary based on the fund, asset class and nature of the investment. It's important to note that statements made in this document about Royal London Asset Management's ambitions and investee company engagement on ESG issues do not guarantee its funds will try to meet these objectives individually – if you are seeking a particular outcome, always check the fund documentation to ensure it will meet your needs.

Engagement priorities

We focus our time and attention on the issues we feel are most material to our investments, and where we think engagement can have the biggest impact on ESG outcomes. When deciding which themes to focus on, we consider alignment with our Purpose as well as customer research. We also leverage Royal London Asset Management's responsible investment research and experience, and consider the engagement themes that Royal London Asset Management selects under our shared Purpose. By combining these inputs with our own customer research, we have established two priority engagement themes which we consider in all our stewardship activities: climate change and inclusion (focused on a just transition). More information on the rationale for choosing these priorities, and the application across different asset classes, is set out under Principle 7 (Stewardship, investment and ESG integration). Principle 4 (Promoting well-functioning markets) sets out more detail on our policymaker priorities, which are aligned to these themes.

Royal London Asset Management refreshes its own engagement themes every two years, following a review of trends and events, alongside extensive consultation with fund managers, responsible investment analysts, clients and other stakeholders. The latest review, conducted in 2023, resulted in revised engagement themes for 2024-26 as set out in Royal London Asset Management's Stewardship and Responsible Investment Report 2023, available at www.rlam.com.

Theme 1: Climate change

Climate change presents systemic and material risks to the ecological, societal and financial stability of the world, and will impact our customers and their investments. We believe that understanding and preparing for climate-related risks (both transition and physical) and opportunities is key to helping us protect the long-term interests of our customers. This helps us to support financial resilience while moving fairly to a sustainable world.

Example: Climate physical and transition risks

Companies may face financial and non-financial losses due to climate-related policy and regulation, as well as climate-related events, such as heatwaves, drought or flooding, leading to damage to land, buildings, goods, or infrastructure. We wish to ensure the companies we invest in disclose a comprehensive risk management strategy and details of their resilience measures. This will help ensure focus on these key risks and generate investment insights, leading to greater protection of our customers' investments. See the EDF case study on page 38 for an example of our engagement activity in 2023.

Theme 2: Inclusion

Our focus on inclusion is concerned with improving the terms on which individuals and groups take part in society. We believe companies that are inclusive with respect to their employees, customers and wider stakeholders are better run, which in turn leads to greater success.

Example: Just transition

For a number of years, we have advocated, through Royal London Asset Management, 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. We believe that ensuring a just transition goes hand in hand with our decarbonisation and social inclusion aims.

In 2023, we focused our just transition engagements on three sectors: energy utilities, social housing and banks. See the Barclays case study on page 38 for an example of transition planning engagement.

Communicating our engagement priorities

We regularly engage with our asset managers to ensure our priority themes are integrated into their processes and decision making. We set our expectations in line with our Asset Manager Oversight Framework and through stewardship meetings as described under Principle 8 (Monitoring managers and service providers). This may include raising concerns or issues on specific topics, or with our asset managers' specific engagement activities.

In 2023, we focused on communicating our engagement themes to our key external asset managers during stewardship meetings, discussing our priorities with them and asking for information on their progress with engagement. This represented a shift away from a 'comply or explain' approach to proactively questioning our asset managers about their progress. In 2024, we are continuing to discuss our engagement themes with key external asset managers, asking for evidence of their alignment.

Royal London Asset Management remains our main mechanism for engaging with investee companies, given the Group's investment in the responsible investment and ESG research capabilities of our asset management business. This gives us, through Royal London Asset Management, great access to investee companies' management and, in turn, increases our ability to gain valuable insights into how companies we invest in manage key ESG issues.

Monitoring Royal London Asset Management's engagement

The biannual meetings we hold with Royal London Asset Management include a review to discuss progress against RLMIS' engagement themes. Royal London uses scorecards to measure and communicate progress across key activities which are linked to remuneration. From 2023, Royal London's STIP measures also include metrics to measure progress against Royal London Asset Management's own engagement plan.

During 2023, Royal London Asset Management held 799 engagements with 443 investee companies, through which 21 unique ESG topics were addressed. Of these engagements, 278 were climate-related. Royal London Asset Management also engaged with 36 companies as part of its Net Zero

Stewardship Programme, accounting for 52% of financed emissions, and it engaged with 59 companies on just transition themes.

Voting engagement letters represent an effective tool for inviting further dialogue with companies. As part of managing RLMIS assets, Royal London Asset Management proactively sends letters to companies where it votes against management, including the rationale for its position. This process is carried out on Royal London Asset Management's behalf by Glass Lewis following submission of a vote. In 2023, this proactive contact triggered several direct responses from companies that Royal London Asset Management had yet to engage with.

More information on engagement carried out by Royal London Asset Management in 2023 on our behalf, as well as on the methods used and the outcome of that engagement, is described in Royal London Asset Management's Stewardship and Responsible Investment Report 2023, available at www.rlam.com.

EDF: Planning for transition and adaptation

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

As significant bondholders and co-leads of the Climate Action 100+ engagement with EDF, Royal London Asset Management introduced the topic of climate adaptation, encouraging EDF to publish adaptation plans alongside the various aspects of its climate strategy. The company improved adaptation disclosures, particularly for new assets, and made Royal London Asset Management aware of its high score on ADEME's (the French Energy Agency) adaptation tool. EDF's remuneration practices reflect its adaptation strategy, focusing on network business reliability. The company is adopting a more systemic approach to adaptation, collaborating with the military on extreme scenarios and engaging with local communities to ensure a 'just adaptation', especially regarding shared water resources.

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

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

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

Barclays: Integrating just transition planning

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

In 2022, Royal London Asset Management met with, and attended the AGMs of, major UK banks – Barclays, Lloyds, NatWest and HSBC – advocating for the integration of a just transition into their climate plans. This included reiterating the opportunities banks could capitalise on from financing net zero.

In 2023, Royal London Asset Management continued engagement efforts to ensure that banks like Barclays fully integrate a just transition into their climate transition plans, with clear evidence of implementation across products, sectors and regions. This included leading a collaborative group, including the Friends Provident Foundation and Financing a Just Transition Alliance members, in meetings with Barclays. These discussions leveraged lessons from our previous just transition work along with insights from the Transition Plan Taskforce and the International Labour Organization/London School of Economics Grantham Institute's just transition finance tool.

Barclays has begun to incorporate its just transition approach into its Climate Transition Framework assessments of its corporate clients. There was also evidence of improvements in Barclays' approach to residential real estate, and positive developments in its regional offering for small-to-medium enterprises.

Engagement with Barclays continues in 2024, with a focus on further integrating a just transition into the bank's climate transition plan.

Principle 10
Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Our impact

As described under Principle 9 (Engagement), it is our responsibility as an asset owner to engage with our asset managers on our customers' behalf, to ensure our Purpose and Investment Philosophy and Beliefs are reflected in their decision making.

We collaborate with other institutional investors, both as an asset owner as well as through Royal London Asset Management. We expect our other asset managers to collaborate with institutional investors (where appropriate and subject to this not being unlawful) to progress our priority engagement themes.

We also engage with policymakers and regulators to help support the transition to a low-carbon economy, in a way that considers the impact on society and our customers. Our policymaker engagement priorities are set out in Principle 4 (Promoting well-functioning markets).

By actively collaborating with industry bodies and other investors on key issues and by using our position to influence others, including our asset managers, we are able to grow the positive impact we have.

We also believe that creating a more sustainable world is not our responsibility alone, nor solely that of our asset managers. It will require action from all asset managers, asset owners, companies, sectors and policymakers across the globe.

Over 2023, we led and participated in a number of industry forums and initiatives focused on reducing and mitigating the effects of climate change, as described under Principle 4 (Promoting well-functioning markets). As an asset owner, we focus on engagement with policymakers, rather than direct engagement with issuers, which is carried out by our asset managers on our behalf.

Collaborative engagement through Royal London Asset Management

Most of our company engagement meetings via Royal London Asset Management are conducted on a one-to-one basis. However, there are instances where collaborating with other organisations to influence company behaviour can lead to more effective engagement. Therefore, we ask Royal London Asset Management to evaluate the benefits of collaborative engagement on a case-by-case basis.

More information on the collaborative engagement Royal London Asset Management has carried out in 2023 on our behalf, and the outcomes of that engagement, is described in Royal London Asset Management's Stewardship and Responsible Investment Report 2023, available at www.rlam.com.

Collaboration in 2023

We work with Royal London Asset Management to collaborate on issues that align to our investment beliefs. When conducting stewardship activities, Royal London Asset Management complies with Group policies. Alongside the activities shared below, Royal London Asset Management maintains open dialogue with non-governmental organisations (NGOs) advocating for climate through investor networks, such as InfluenceMap, ShareAction, Australasian Centre for Corporate Responsibility and FollowThis.

Examples of activities during 2023 included:

Energy utilities

- Royal London Asset Management continued to co-lead Climate Action 100+'s engagement with **E.ON** and **EDF** to address specific gaps in their climate transition plans. E.ON is a significant operator of Germany's energy network and holds an important role in other European networks, meaning that its stance on climate change is influential in government policy decisions. In 2023, Royal London Asset Management arranged a focused conversation between E.ON and the NGO InfluenceMap to address concerns with E.ON's lobbying policies in relation to climate change. In 2023, Royal London Asset Management also encouraged EDF to improve transparency on its climate transition strategy, as detailed in Principle 9 (Engagement).
- As part of the Net Zero Engagement Initiative (NZEI), Royal London Asset Management co-led engagement with **Drax**, **Croda** and **UPM-Kymmene Oyj** in 2023 and is continuing to do so during 2024. In 2023, 107 letters were sent as part of the initiative to companies, encouraging them to develop their net zero transition plans.
- Royal London Asset Management collaborated with American and UK investors to provide feedback to **National Grid** on its just transition plans. This engagement continues into 2024 with more dialogue on National Grid's approach to just transition planning.
- Royal London Asset Management teamed up with Border to Coast to engage with **CLP Holdings**, focusing on developing a just transition plan. CLP acknowledged that having just transition principles could aid the company in strategic decisions related to its transition. Royal London Asset Management shared what it believes to be useful resources, guidance, and examples of integrating just transition and will continue to monitor the company's disclosures.
- As co-lead for the Institutional Investors Group on Climate Change Energy Utilities Working Group, which advocates for companies to set 2040 net zero targets, Royal London Asset Management engaged with major utilities companies – including **National Grid**, **SSE**, **E.ON**, **EDF** and **Centrica** – on a just transition and on decarbonising heating across Europe. Royal London Asset Management has signed on to send letters to European energy utilities requesting they re-commit to climate action plans that reflect the 1.5°C-aligned pathways necessary to limit the global temperature increase in line with the Paris Agreement – and that they lobby government for decisive action on energy security and the transition to net zero.
- On behalf of the World Benchmarking Alliance, Royal London Asset Management co-led engagement with **Shell** and supported investor interactions with **Equinor**, **Chevron** and **ExxonMobil** for a just transition in the oil and gas sector. Royal London Asset Management is holding further conversations with Shell during 2024.

Social housing

- In partnership with Friends Provident Foundation, Royal London Asset Management released a paper for professional clients on 'Net zero social housing: a just transition through a perfect storm', available at www.rlam.com. This explores the challenge that net zero action could divert resources away from essential priorities such as building more affordable homes.
- Royal London Asset Management's active engagement with industry bodies such as the Better Buildings Partnership, Net Zero Asset Managers and the UK Green Building Council influences the effectiveness of our collaboration, innovation and sustainability leadership in the real estate sector. Involvement with these organisations results in an understanding of what peers are doing, and helps ensure good practice is followed.

Banks

- Royal London Asset Management contributed to Financing a Just Transition Alliance's work and collaborative engagement, partnering with other asset managers. In 2023, Royal London Asset Management led a collaborative group, including Friends Provident Foundation and Financing a Just Transition Alliance members, in meetings with **Barclays**. These discussions leveraged learnings from Royal London Asset Management's previous just transition work alongside insights from the Transition Plan Taskforce and the International Labour Organization/London School of Economics Grantham Institute just transition finance tool.
- Royal London Asset Management worked with Border to Coast and Friends Provident Foundation to engage with **HSBC**, **NatWest**, **Barclays** and **Lloyds** on the unintended social impacts of the climate transition. See page 38 for a case study on integrating just transition planning with Barclays.

Principle 11

Escalation

Signatories, where necessary, escalate stewardship activities to influence users.

Escalation mechanisms within Royal London

Although our asset managers engage on our behalf, we instruct investment activity in line with our engagement themes and wider Purpose, as explained under Principle 9 (Engagement).

We believe that engagement is preferable to divesting, as continued investment provides us with greater influence and ability to help drive effective change. However, if engagement activities do not meet the objectives that were set out at the start of the engagement, or if the activities do not result in material progress within the timeframes that have been set, we expect our asset managers to escalate their activities.

Escalation that we ask asset managers to undertake on our behalf can include:

- holding additional meetings with company management, the chair or other board members
- divesting from, or reducing their exposure to, the investee company
- excluding or reducing exposure to the sector from their investment universe
- withholding support for management, voting against them or submitting a shareholder resolution.

Our Stewardship and Engagement Policy includes escalation and applies equally to all our investments, across all geographies; though in practice the application varies by asset class, reflecting the variety in good practice and available opportunities. Find further detail on our policy under Principle 7 (Stewardship, investment and ESG integration).

Escalation by Royal London Asset Management

Investee companies that do not respond to engagement requests on ESG issues may pose a risk to our customers' investments. We engage with Royal London Asset Management to identify these risks. Royal London Asset Management takes action when faced with companies that are unresponsive to engagement or fail to address material risks, yet have significant, persistent or intractable ESG issues and pose a risk to our clients' assets.

Potential further actions that can be taken by Royal London Asset Management, on our behalf, include:

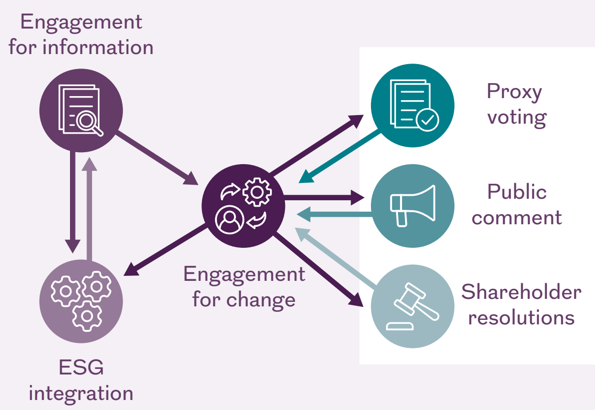
- **Internal escalation:** Royal London Asset Management first escalates issues to its Head of Desk, its Chief Investment Officer and its Head of Responsible Investment for in-depth discussion and decisions on subsequent actions.
- **Investment Committee reporting:** If an engagement is escalated, the decisions and actions are reported to the Royal London Asset Management Investment Committee for information and recording.

Royal London Asset Management may also take direct firm-level actions:

- **Senior-level engagement:** Matters may be escalated to the company's chair or senior executives.
- **Shareholder voting:** Votes at annual or general meetings may be used to influence directors or management
- **Shareholder resolutions and public comments:** Shareholder resolutions may be filed or co-filed or public statements issued when appropriate.

All engagement activities are used to ensure we are acting in the best interest of our customers. The chart below illustrates Royal London Asset Management's escalation process relating to engagement.

Royal London Asset Management's engagement approach



Voting

Voting is one way in which RLMIS can escalate matters of concern as an asset owner on behalf of our customers. During 2023, we communicated our Voting Policy to our key external asset managers.

For segregated mandates managed by Royal London Asset Management, we have established a Reserved Voting process that enables us to direct a vote on resolutions if required. This involves escalation to our Reserved Voting Forum. The Reserved Voting process complements our Voting Policy, which is described in more detail under Principle 12 (Exercising rights and responsibilities).

Reserved Voting Forum

Our Reserved Voting Forum, largely comprising executive and non-executive directors, is an advisory body to both the Group CEO of RLMIS and the CEO of Royal London Asset Management Limited. The Forum considers and provides voting advice in respect of any votes that are judged to be high risk and/or sensitive resolutions proposed by investee companies or their shareholders. For example, it advises on resolutions regarding overseas acquisitions of UK assets; remuneration that is not tied to performance or does not support generation of long-term value for shareholders; and resolutions significantly affecting an investee company's strategy.

In 2023, the Reserved Voting Forum met once to discuss investee company votes. More information on voting activity, including examples of escalation, is provided under Principle 12 (Exercising rights and responsibilities).

Climate voting by Royal London Asset Management

As climate is one of our engagement priorities, we engage with Royal London Asset Management to ensure its involvement in climate voting activity on our behalf.

As part of Royal London Asset Management's ambition to help clients and investee companies to transition to net zero, our asset management business launched its Net Zero Stewardship Programme in 2022. This programme supports identification of the highest emitters across Royal London Asset Management's AUM, and evaluates and monitors companies' climate transition plans, engaging for change. See page 43 for further detail of the programme's progress to date.

Voting and engagement are inextricably linked, with voting serving as both a starting point and an escalation technique to complement our engagement on climate change matters. Throughout the year, Royal London Asset Management voted at 3,572 meetings in 57 markets, with its Responsible Investment team carefully considering each vote. Royal London Asset Management also engaged with 223 companies (278 engagements[1]) on climate, representing 65% of its financed emissions.

Royal London Asset Management assesses companies against 12 indicators developed by its governance and climate experts to understand companies' net zero plans and their delivery. This allows it to assess each company in a detailed, fair and consistent way.

During 2023, Royal London Asset Management engaged intensively with 36 of the largest emitting companies as part of its Net Zero Stewardship Programme, which represented over 52% of its financed emissions. It found that 73% of the companies assessed between 2022 and 2023 were considered to be 'aligning towards a net zero pathway'. Royal London Asset Management will continue to focus on ensuring companies have robust climate transition plans and are prepared to take advantage of opportunities.

Royal London Asset Management: Climate engagement breakdown

1. Number of engagements is often higher than number of companies engaged as multiple ESG issues could be discussed with one company in the same meeting and/or a company can be engaged with multiple times.

Net Zero Stewardship Programme: Progress to date

Over the last two years, Royal London Asset Management has assessed and observed changes in its climate transition assessments of 22[1] high-emitting companies. Progress has not been linear, and while the trend has not always been upward, the overall trajectory has been positive. On average across these companies, for every indicator that has deteriorated, three indicators have improved.

- The area with the best observed performance is within companies' targets covering all scopes of emissions. However, these targets are typically still not ambitious enough (i.e. not aligned to the Paris Agreement).
- Three companies that Royal London Asset Management engaged with improved their plans to 'aligning towards a net zero pathway', while seven companies improved on scaling climate solutions and eight companies improved on integrating climate into executive remuneration.
- Two companies that Royal London Asset Management engaged with worsened their climate plans, moving from 'aligning towards a net zero pathway' to 'not aligned' (i.e. the worst assessment). The indicators for which deteriorating trends were observed during the year were on climate lobbying, and short-term targets and their delivery.

Find further detail on Royal London Asset Management's Net Zero Stewardship Programme in its 2023 annual update, available for professional clients at www.rlam.com.

1. Whilst Royal London Asset Management engages intensively with 36 companies as part of its Net Zero Stewardship Programme, 22 companies have a Responsible Investment Climate Transitions Assessment for 2022 and 2023, making it possible to begin tracking progress year on year.

Royal London Asset Management voting decisions send a clear and united message to investee companies about the governance expectations and reinforce our efforts to uplift standards through engagement.

Some of the issues Royal London Asset Management considers on our behalf are:

- if targets are aligned with the Paris Agreement
- the approach to a just transition
- the ability to demonstrate climate action now.

Climate issues are often complex and nuanced, 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 feeling the need either to support a proposal we do not agree with entirely, or to disregard it if there is some evidence of progress.

This approach can, and has, led to further engagement with companies on areas where companies are making progress, but where improvements are still required. Through Royal London Asset Management, we often write to companies in our actively managed funds when we abstain, to explain the reason for our vote. We cover more on engagement letters under Principle 9 (Engagement) and Principle 10 (Collaboration). Often companies are more receptive to engaging 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 concerns if necessary in future years, such as in the Shell and BP case studies shared on page 46.

A breakdown of how our asset management business voted on climate issues in 2023 is provided on page 12 of Royal London Asset Management's Stewardship and Responsible Investment Report 2023, available at www.rlam.com.

Principle 12

Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

We expect our asset managers to actively exercise their rights and responsibilities on our behalf, as set out in our Stewardship and Engagement Policy. As described under Principle 7 (Stewardship, investment and ESG integration), our policy applies across our portfolio, though practical implementation will vary by asset class – according to the opportunities available and the practices that are currently accepted as the most effective.

In relation to equities, we ask our asset managers to comply with our Voting Policy and related voting policy guidelines, as described below.

In relation to fixed income, including corporate bonds, we do not have the right to vote at an AGM 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 general meetings, where we are asked to grant consent for changes that can impact our investments in a given company. The EDF case study featured on page 38 and the Aviva case study below provide examples of how Royal London Asset Management exercised the rights of bondholders on our behalf.

Our Sterling corporate bond portfolios tend to be disproportionately exposed to secured and highly covenanted bonds. As well as acting as a useful dampener on the impact of any unforeseen ESG risks, strong covenants also provide pre-emptive control over the companies that we lend to, increasing the opportunities for engagement with issuers should their financial performance deteriorate or when they require changes to bond terms and conditions to increase flexibility. The additional control afforded helps us to preserve our clients' economic exposures in both scenarios.

For our Property investments, we also exercise our rights in the contracts we set with our tenants through Royal London Asset Management. Further information on Royal London Asset Management's work in this area is provided in its Responsible Property Investment Strategy Report for professional clients, available at www.rlam.com.

Bondholder voting: Aviva

Aviva actively engaged with certain bondholders during the year to help the company ensure its bonds were compliant with regulatory standards. Royal London Asset Management elected to support this process, on the basis that clients were sufficiently compensated for the changes to the bond's terms and conditions in the form of an appropriate fee.

Voting Policy

Royal London's Voting Policy sets out the parameters within which asset owners and asset managers should operate. The policy ensures that we are not wholly reliant on our asset managers' voting policies and decisions.

The policy, which applies to listed equities only, covers all assets held by RLMIS including those held in respect of our Ireland business. It does not apply to investments through derivatives.

As an asset owner, we have a set of expectations for asset managers in relation to their voting procedures. We expect them to:

- have a publicly available voting policy
- give careful consideration to ESG issues when exercising voting rights
- take an active approach to voting, whether in active or passive funds
- support investee boards and management where their actions are consistent with long-term corporate value as opposed to short-term profits
- support the alignment of voting decisions with investee company engagement
- disclose voting activity no less than twice a year.

Royal London's Voting Policy includes a set of guidelines that describe the expectations we place on the companies we invest in, with reference to:

- **corporate governance** – including board composition, executive directors' remuneration, auditor independence and non-audit fees, shareholder rights, shareholder resolutions and report and account disclosures
- **environmental risk** – including climate change, biodiversity, pollution and natural resources disclosures
- **social inclusion** – including diversity, pay ratio and gender pay, commitment to paying a living wage, pension provision, and workforce engagement.

During 2023, we communicated our Voting Policy to our key external asset managers and reviewed their voting policies against our Voting Policy guidelines. The results showed that, on the whole, their policies were aligned with our expectations. Where gaps were identified, they were not significant, and the overall assessment concluded that there was broad alignment with our guidelines. This was captured in our overall assessment and discussed with asset managers during our stewardship meetings.

Voting activity in 2023

As described under Principle 7 (Stewardship, investment and ESG integration), we delegate voting decisions to our asset managers.

For investments in 'pooled' collective investment funds, we engage with our asset managers to assess how they align to our Voting Policy. We monitor and analyse the voting patterns of asset managers, taking further action if needed. For segregated mandates managed by Royal London Asset Management, we have established a Reserved Voting process that enables us to direct a vote on resolutions if required. More information on the Reserved Voting process is provided under Principle 11 (Escalation).

As described earlier in the report, Royal London Asset Management manages over 95% of RLMIS customer assets and as such completes eligible voting on our behalf. Royal London Asset Management's 2023 voting activity is on page 12 of its Stewardship and Responsible Investment Report 2023, available at www.rlam.com. Additionally, as noted in Principle 8 (Monitoring managers and service providers), quarterly voting data is also requested from Tier 2 key external asset managers as well as details of any 'notable' votes for analysis against Royal London's votes.

Alongside voting, we also engage with industry bodies, policymakers and regulators to help support the transition to a low-carbon economy, in a way that considers the impact on society and our customers, as set out in Principle 4 (Promoting well-functioning markets) and Principle 10 (Collaboration). We believe that by actively collaborating on key issues we are able to grow the positive impact we have. Our collaborative engagement demonstrates our active role in influencing positive systemic change. In Principle 2 (Governance, resources and incentives) we also demonstrate how we consider stewardship of our suppliers from the outset.

Voting in 2023

Here are a few examples of how Royal London Asset Management voted on our behalf in line with Royal London's Voting Policy in 2023.

Shell

Shell is an oil and gas major whose progress Royal London Asset Management has monitored closely for several years – as the firm remains a substantial holding and contributor to our financed emissions. Following internal discussions on the progress of Shell's climate transition plans, Royal London Asset Management reiterated its requests for improvements with the company's Chairman ahead of the 2023 AGM.

Previously, Royal London Asset Management had *abstained* on the management proposal to approve Shell's 'Powering Progress' report in 2022. Royal London Asset Management believed it was not sufficiently ambitious to be considered in line with the Paris Agreement. In 2023, Royal London Asset Management chose to escalate concerns and voted *against* the management proposal, because it had observed slow progress and retained concerns around Shell's Scope 3 disclosures, offsets and investments in new oil and gas production.

In 2023, Royal London Asset Management also *abstained* on a shareholder proposed resolution on climate change regarding greenhouse gas emissions reduction targets due to concerns with management's climate plan. This was a change from 2022 when it aligned its vote with management and voted against the shareholder proposal.

Looking ahead, Royal London Asset Management plans to maintain extensive engagement with Shell. While Shell has yet to fully meet Royal London Asset Management's requests, engagement will continue as it is a large and strategic holding.

BP plc

In the lead up to BP's 2023 AGM, Royal London Asset Management met BP's CEO initially and Company Secretary thereafter to explain voting intentions and the rationale for these. The discussion covered the shortcomings of both the Remuneration Report and the lack of a shareholder consultation on changes to BP's climate plans. It was considered important that BP explain its intentions privately before the votes were cast given the scale of engagement with the company.

At the AGM, Royal London Asset Management voted:

- *against* the re-election of the company's Chairman, believing that shareholders should have been afforded the opportunity to vote on the new climate plan
- *abstain* on the proposal submitted by Follow This, which asked BP to align its Scope 3 climate strategy to the goals of the Paris Agreement (a voting escalation from the position in 2022 which was to vote against)
- *abstain* on the Remuneration Report, due to persistent concerns with the treatment of health and safety under the short-term incentives.

Royal London Asset Management will continue to engage with BP as part of its Net Zero Stewardship Programme. Find further information on this programme under Principle 11 (Escalation) and at www.rlam.com.

Chevron Corp, Amazon.com Inc, Exxon Mobil Corp

In line with our commitment to advocate for a just transition, Royal London Asset Management supported shareholder proposals urging companies to report how their climate strategies impact stakeholders.

This included supporting shareholder proposals at Amazon.com Inc, Chevron Corp and Exxon Mobil Corp, among others. The aim was to allow stakeholders to fully understand the companies' considerations with respect to the future of their workforce and how they plan to address the social implications of the climate transition.

Royal London Asset Management will continue to engage with these companies through its various engagement programmes, such as its work on net zero and just transition as described under Principle 11 (Escalation).

Looking ahead

As a purpose-driven mutual, we aim to influence changes that benefit our members, customers and wider communities. Stewardship is central not only to building financial resilience and delivering better outcomes for our customers, but also to supporting wider societal progress towards a sustainable future.

Listening to our customers, we will invest to make sure our products and services continually meet their needs and preferences. For example, as part of Royal London research in 2023, over half (56%) of customers surveyed say that ensuring their investments have a positive impact on climate change is important to them. In response, we plan to expand and adapt the range of climate-aware investment solutions we offer our customers and clients, in line with our climate commitments[1].

Our climate commitments contribute to the effective management of climate-related risks and opportunities for our customers. During 2023, we focused on developing a Climate Transition Plan that details how we intend to progress towards our climate commitments. Following review of this plan by the Group Executive Committee, we identified key areas for further development – such as developing our approach to fossil fuel investments as well as considering nature and biodiversity-related impacts. We will work on these areas prior to publishing Royal London's Climate Transition Plan in 2025, which will align with the Transition Plan Taskforce's Disclosure Framework.

While the financial services sector can make important contributions, we – alongside other sectors – are dependent on governments and policymakers to deliver on climate commitments, regulators to set rules that support climate ambitions, and all industries to keep innovating and pushing for a low-carbon future. Our priority areas for engagement with policymakers, industry groups and regulators will continue to guide the conversations we have in 2024.

As an asset owner, we work with our asset managers to ensure that our stewardship and engagement principles are reflected in the investment decisions they make. Mindful of evolving best practice, we continue to review our stewardship approach and activities. This will include the first triennial review of our Stewardship and Engagement Policy in 2024 as well as continuing to develop our RICC Oversight Framework to reflect improvements in data quality and quantity that enhance our ability to assess the activities of our asset managers and funds.

The FRC's Stewardship Code sets some of the highest standards for stewardship in the world. We are supportive of the FRC's work to review the Code to ensure it drives better stewardship outcomes. Having already participated in the roundtable discussions that helped determine the focus areas for review, we intend to continue engaging with the revision process as is helpful to the FRC. The review's findings will help inform our future stewardship activities – and influence how we will continue using our mutuality for good.

1. For detail of Royal London's climate commitments, see our Climate Report 2023, available at www.royallondon.com.

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