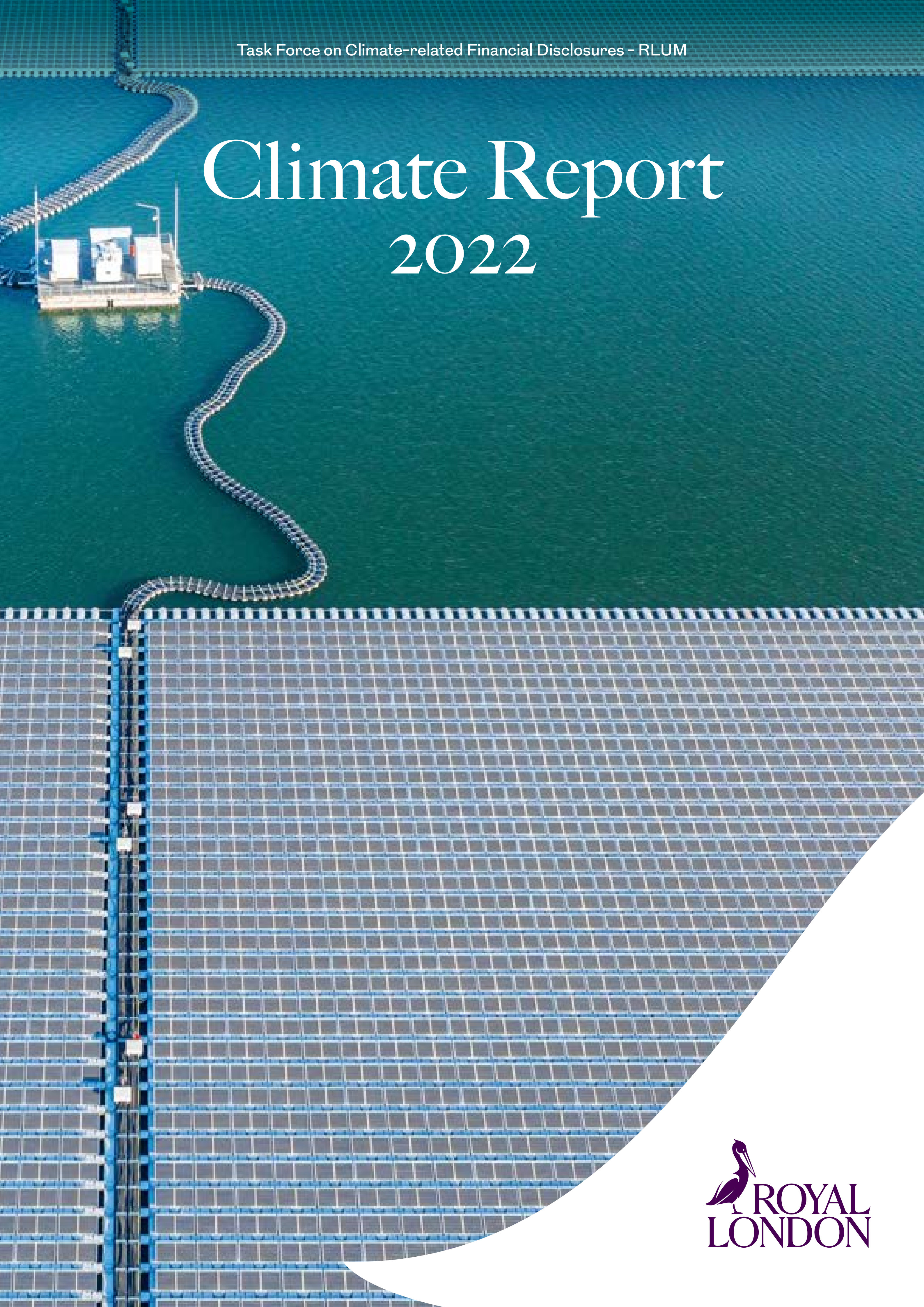
Climate Report 2022



ROYAL LONDON

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Paul Bowker
Chief Executive Officer
RLUM Limited

Compliance Statement:

The disclosures for RLUM Limited, including any third party or group disclosures cross-referenced, comply with the requirements under the FCA's Policy Statement PS21/24.

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Executive Summary

Climate change is one of the biggest risks facing our society today. The effects of climate change and the actions taken to mitigate it will have a major impact on our society – socially, politically and economically. Finding information on which companies are most at risk from climate change and which are making changes in how they behave is not easy.

Reflecting on current climate action in the asset management sector, we see that the focus is primarily on emissions measurement and scenario analysis. While we agree that these are useful climate risk management considerations, we believe that the actions taken by investors and companies are at least as important to reach net zero and to effectively manage climate risk. Carbon-related metrics and climate modelling will continue to evolve and improve through bold leadership.

The Task Force on Climate-related Financial Disclosures (TCFD) recommendations are designed to help the investment community build a more in-depth and consistent picture of the impact of climate change.

We are pleased to present our 2022 RLUM Climate Report, which has been prepared in accordance with the recommendations of the TCFD.

About RLUM

RLUM Limited (RLUM) is a Financial Conduct Authority (FCA) regulated Fund Management Company offering a broad range of funds for investment opportunities. RLUM has appointed its affiliated company Royal London Asset Management Limited to manage the funds in line with an investment management agreement between both companies.

The Royal London Group comprises The Royal London Mutual Insurance Society (RLMIS) and its subsidiary undertakings, including RLUM and Royal London Asset Management.

RLUM does not have any direct employees or premises, with activity carried out on behalf of us by RLMIS staff in RLMIS premises.

As well as being part of the Royal London Group and benefiting from the governance structure detailed in both the RLMIS and Royal London Asset Management reports, RLUM has its own Board. The RLUM Board is responsible for the strategic direction of RLUM, approval of significant expenditure and investment, monitoring business performance and ensuring that legal and compliance standards are achieved.

Matters ordinarily managed and overseen in Risk, Audit, Remuneration and Nomination Committees are dealt with at the relevant Royal London Group's Committee.

In addition, RLUM has its own Executive Committee, the role of which is to support the RLUM Chief Executive Officer in the performance of their duties.

TCFD reporting requirements

The Publication of a TCFD report is a regulatory requirement, as set out in the FCA's Policy Statement PS21/24[1] published in 2021. The FCA has suggested that the Financial Stability Board's TCFD be used for reporting. The TCFD was set up to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders.

This report follows the TCFD recommendations as suggested by UK regulators including the FCA. These enhanced disclosures are expected to help clients and consumers make more informed financial investment decisions.

TCFD covers 4 key themes (with 11 disclosure recommendations within those themes) for organisations to include in their climate reporting.

Our climate disclosures are subject to internal governance in conjunction with our parent company RLMIS and Royal London Asset Management.

Governance, Strategy and Risk activities, including climate-related matters, are carried out by RLMIS and Royal London Asset Management on behalf of RLUM, under the oversight of the RLUM board. For these activities we refer investors to the RLMIS and Royal London Asset Management Climate Reports located here, [Sustainability reporting - Royal London], which provide full disclosure on how these activities, which cover RLUM, are carried out.

RLUM's activity is carried out on our behalf by RLMIS staff in RLMIS premises. As such, our operations form part of the wider RLMIS operations, and any metrics and targets from an RLMIS operational perspective will include our activity. In addition, as we have appointed

Key TCFD Themes	TCFD Recommendation
Governance	Describe the board's oversight of climate-related risks and opportunities Describe the management's role in assessing and managing climate-related risks and opportunities
Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario
Risk Management	Describe the organisation's processes for identifying and assessing climate -related risks Describe the organisation's processes for managing climate-related risks Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management
Metrics and Targets	Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process Disclose Scope 1, Scope 2, and if appropriate Scope 3 Greenhouse Gas (GHG) emissions, and the related risks Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Royal London Asset Management as the investment manager of the funds, oversight of the climate-related risks and opportunities is undertaken by Royal London Asset Management in its role as the investment manager. Please refer to both the RLMIS and Royal London Asset Management Climate Reports for details on these aspects (see above for where to find these reports).

In this report we aim to describe and signpost:

- how climate-related risks and opportunities are identified, assessed and managed;
- the governance that is in place to manage climate-related risks and opportunities;

[1] https://www.fca.org.uk/publication/policy/ps21-24.pdf

- the progress that has been made by the Royal London Group in integrating climate into the wider strategic and risk-management frameworks.

Although RLMIS, RLUM and Royal London Asset Management are part of the Royal London Group, all three are managed separately and are overseen by their own Boards. RLMIS and Royal London Asset Management also publish their own Climate Reports, which can be found here, Sustainability reporting - Royal London.

RLUM Climate Metrics

We have disclosed a selected number of metrics across the RLUM portfolio, as shown in the table below. A more extensive dataset has been used both in the Royal London Asset Management and RLMIS Climate Reports located here, Sustainability reporting - Royal London, that help more fully measure position and the effectiveness of Royal London Group strategy. The metrics we have used draw out the emissions position of the RLUM portfolio.

GHG comprise the seven gases included in the United Nations Framework Convention on Climate Change (UNFCC) as drivers of climate change: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6), and nitrogen trifluoride (NF_3).

GHG Emissions are classified into three 'distinct' scopes, which cover the different kinds of carbon emissions a company creates in its own operations and in its wider value chain.

Financed emissions (Scope 1 and 2) related to the emissions that a company (in this case holding companies within investment portfolios) makes directly, for example, while running its boilers or vehicles, and those made indirectly, like when the electricity or energy it buys for heating and cooling buildings is being produced on its behalf. Financed emissions (Scope 3) are those that are more external to a specific organisation, upstream and downstream in its value chain.

Carbon footprint is the emissions intensity of the total of RLUMs funds whilst WACI (Weighted Average Carbon Intensity) is the total of all the funds exposure to emission intensive companies.

The table below details the total emissions from all RLUM fund holdings, not RLUM Limited as a business. Details at an individual fund level can be found in the individual product level reports, which can be found here.

Metrics for corporate equity and fixed income, as at 31 December 2022. Source: RLAM and MSCI

Metric	Units	Value
Financed emissions (Scope 1 GHG)	$MtCO_2e$ [3]	0.3
Financed emissions (Scope 2 GHG)	$MtCO_2e$	0.1
Financed emissions (Scope 3 GHG (reported))	$MtCO_2e$	4.4
Financed emissions (Scope 3 GHG (estimated))	$MtCO_2e$	2.9
Financed emissions (Sc 1,2 & Estimated Sc3)	$MtCO_2e$	3.3
Carbon footprint [4]	tCO_2e / $M invested	24.2
Weighted Average Carbon Intensity (WACI) [5]	tCO_2e / $M revenue	68.9

Data quality is crucial when analysing companies' impact on climate. The quality of data available to investors has been historically poor but we expect it will continue to improve. For years, Royal London Asset Management has enhanced the climate data sets to integrate the best available public information into climate-related engagement and investment analysis. Royal London Asset Management will continue developing new integration models and forward-looking metrics.

See Appendix 1 for Methodological and data assumptions, limitations and disclaimers.

TCFD disclosures for RLUM funds

Royal London Asset Management on behalf of RLUM has published specific climate related disclosures for all RLUM funds. These are available on the RLAM Fundcentre website located here.

[2] This Climate Report is a standalone report and metrics stated here are not an aggregation of those in fund-level reports.
[3] Million tonnes of CO_2 equivalent
[4] Scope 1 and 2
[5] Scope 1 and 2

Appendix

Methodological and data assumptions, limitations, and disclaimers

For a full description of the methodologies used to calculate the metrics in the table above (e.g. financed emissions, carbon footprint and WACI) please see the Appendix on Definitions, metrics descriptions and methodologies in Royal London Asset Management entity-level disclosure located here, Sustainability reporting - Royal London.

Our disclosed metrics are subject to limitations due to the emerging nature of climate data applications and methodologies in finance. Low levels of data coverage may give inaccurate portfolio statistics. All data is supplied for informational purposes only and should not be relied upon for investment decisions. We endeavour to improve climate data in finance through public information from our engagement with companies and data providers. We believe that technological innovations will make data more easily accessible and auditable in the future. Royal London Asset Management are also working with regulators, such as through the FCA's Climate Financial Risk Forum (CFRF) in the UK, to support disclosure standardisation.

Although Royal London Asset Management's information providers, including but not limited to, MSCI ESG Research LLC and its affiliates (the ESG parties), obtain information from sources considered reliable, none of the ESG parties warrants or guarantees the originality, accuracy and/or completeness of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose.

Four areas applicable to RLUM have been found where limitations are most evident:

1. Issuers' carbon emissions data is incomplete and can be inconsistent across sectors, asset classes and regions

Most GHG disclosures are voluntary, relative to financial data and are subject to less rigorous auditing. Issuers disclose emissions with different levels of transparency, coverage and methodologies, making disclosures less comparable. For example, they may aggregate all GHGs into CO_2 equivalent values or reveal their operations' carbon intensity and not the absolute emissions. Furthermore, there are instances in which emissions are inherently hard to monitor and measure, such as methane emissions that leak from oil and gas infrastructure. Specific countries, such as the US and China, are relatively further behind in disclosure compared to European institutions.

When issuers don't report Scope 1 and 2 emissions, estimation methodologies that allow for further coverage can make emissions data less reliable. Methodologies to estimate emissions can be based on a company's production data, historical companies' emissions reports or by using the subindustry segment intensity average. We have enhanced Scope 1 and 2 emissions with in-house research for fixed income sterling credit instruments based on detailed knowledge of the issuers, capital structure considerations and underlying assets.

Given the lack of issuer data and inconsistencies in reporting we selected to disclose our holdings' Scope 3 emissions as estimated by data providers following the GHG Protocol methodology. The Scope 3 estimation methodologies cannot follow entirely the GHG Protocol as it would require complete understanding of each company's entire value chain and market. Nonetheless, the methodologies are based on bottom-up company-specific data when available but can also use top-down sector intensities. We note that the Scope 3 emission estimates are particularly weak for financials. This is mostly as methodologies for financials are only recently being supplemented by the Partnership for Carbon Accounting Financials (PCAF), disclosures are more complex and estimations involve using reference proxy portfolios and subindustry average emissions which are less accurate in nature than estimations for sectors where activities can be tracked by revenue split or assets.

The comparability and timeliness of companies' disclosures is limited by data providers' research cycles and the rapidly moving landscape of corporate and policy climate pledges. Timing of disclosure varies across jurisdictions and companies, with announcements on climate strategy or emissions targets not necessarily following the financial disclosure schedules. This is compounded by work and research update schedules (the workflow by which they prioritise companies' research) of both our data providers and Royal London Asset Management. The result is that carbon data is often 12-18 months out of date. Royal London Asset Management endeavour to use the most up to date data available to us at the time of calculation.

2. Issuers' financial data can be inconsistent

The financial data standardised by ESG data providers used in this report may differ to data used in our internal financial analysis. For example, conversion rates and differences in tax system reporting make data less comparable. To assess companies' performance, Royal London Asset Management use the financial data from various data providers, including the ESG data vendors used in this assessment. This includes revenue, market capitalisation and enterprise value.

3. Aggregation and coverage

Royal London Asset Management relies on asset tagging to perform the aggregation calculations. This means there may be, on occasion, incidents where there are excluded instruments with available carbon data as they are not considered to be corporate fixed income or equity instruments. The impact this methodological approach has on our entity carbon emissions is immaterial.

Important information

4. Data sources and quality

For our equities and corporate bond portfolio the following applies:

Financial data:

Portfolio data and benchmark data is from Royal London Asset Management's financial data systems with values as at end of year 2022.

Emissions data:

Equity emissions data comes wholly from MSCI.

For fixed income securities, Royal London Asset Management have developed their own emissions research process which provides more carbon emissions data that is more granular and more relevant to our fixed income issuers. The emissions figures are calculated using a formula which uses the sourced data as a preference where this data is available, supplementing with MSCI data or estimates where they have not gathered proprietary data. Royal London Asset Management's data for emissions includes a combination of company disclosures through annual reporting, sustainability supplements, filings to the carbon disclosure project and primary research by Royal London Asset Management's Responsible Investment and Credit teams. Where we lend to ring-fenced subsidiaries, Royal London Asset Management have tried to source carbon data and revenues specific to those subsidiaries.

All Scope 3 data is sourced from and estimated by MSCI for both fixed income and equities.

Contact us

For more information about our range of products and services, please contact us.

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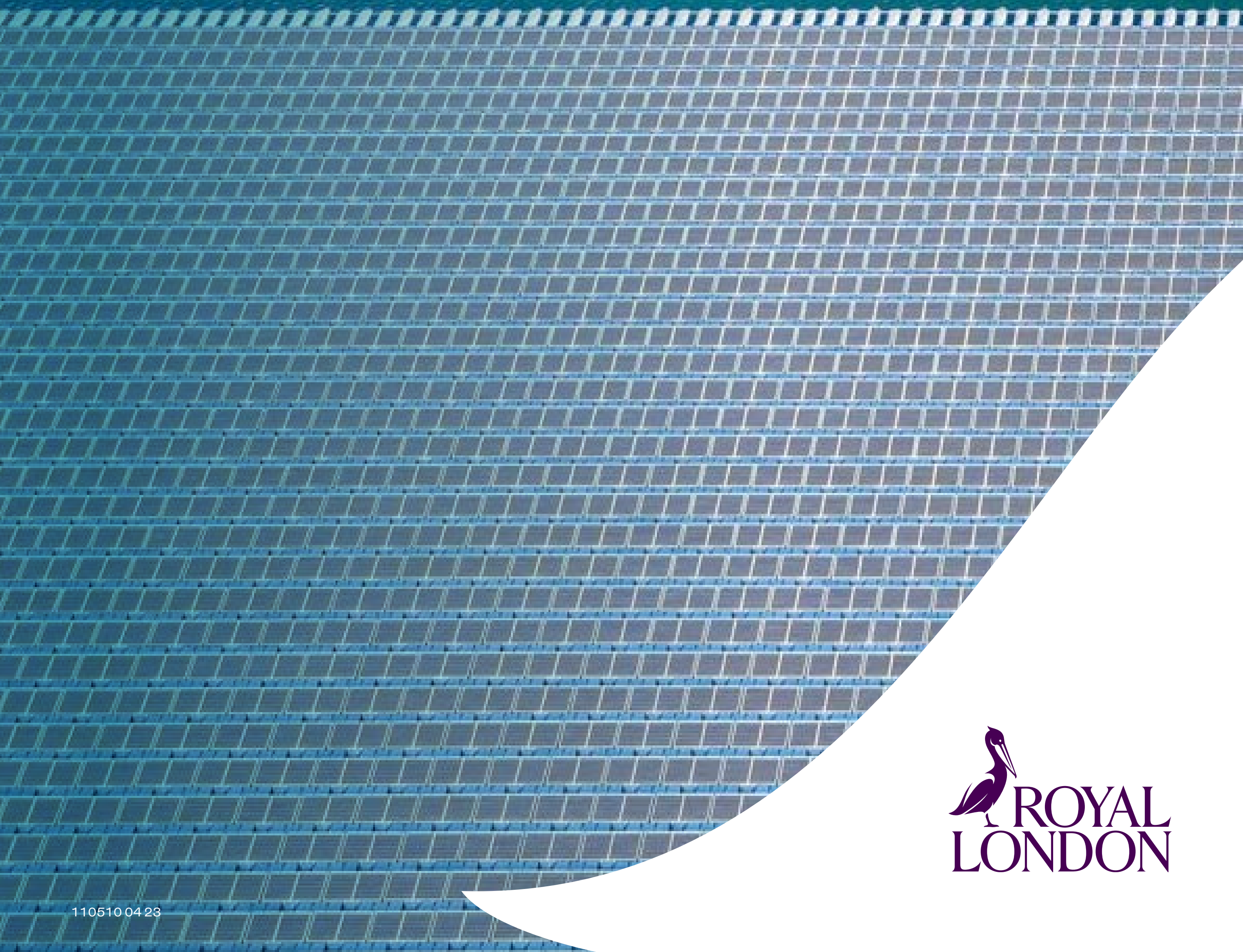
We are happy to provide this document in Braille, large print and audio.



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