Responsible and Sustainable Investment at Royal London

As the UK's largest mutual insurance and pension provider, we're committed to being a responsible investor.

This means we integrate Environmental, Social and Governance (ESG) factors in our processes, with the aim of delivering better outcomes for all of society whilst continuing to provide strong risk adjusted returns for our customers.

Environmental, Social and Governance factors are not only growing in importance for our customers, but they are also increasingly impacting the performance of a wide range of asset classes. Therefore, it's important to understand how different investment approaches take account of these factors, and how they are ultimately incorporated in the overall process.

This document is designed to explain the difference between responsible investment which applies across Governed Range compared to a sustainable approach which applies across the sustainable funds.

Responsible

Responsible Investment is about investing across all asset classes in a way that supports better outcomes for all of society. This is achieved by understanding the material environmental, social and governance (ESG) risks that the investments are exposed to and taking steps, where appropriate, to mitigate these risks. Understanding these risks help inform the basis for stewardship responsibilities. The implementation and practise of these responsibilities is achieved through active ownership, which includes voting at company AGM's and engaging with these organisations to influence change for the benefit of all.

Sustainable

Sustainable investing is an approach that seeks to invest in companies that meet specific criteria or deliver sustainable outcomes through the products and services they provide and/or their business conduct. This approach looks at combining the values of investors with the organisations they invest in through selecting companies that are leaders on an Environmental, Social and Corporate Governance front. The approach is focussed on positive impact and positive selection rather than only applying negative screens.

What is the difference between Responsible and Sustainable funds at Royal London? Responsible is the new normal and will apply to all our funds by the end of 2020, focussed on delivering better outcomes for all. Sustainable is a targeted approach focussing on specific themes and only investing in those leading companies that are a net benefit to society.

Responsible – Governed Range

- **Suitable for most investors** – Governed Range makes up Royal London's default investment strategy for workplace customers. Complies with DWP best practise guidelines for default design, suitability and ESG factors
- **Accesses a wide range of asset classes** – responsible investment applies to all 8 asset classes used in Governed Range
- **Focusses on the interests of all of society through active ownership** – by maintaining a large investment universe change can be influenced from within, by voting at AGM's and having regular meetings with the companies we invest in
- **Combines active and passive investment strategies** – financially material ESG factors are incorporated in the active processes and we are developing capability to adjust (tilt) passive strategies to suit specific ESG criteria
- **Complements the existing benefits of Governed Range** – Ongoing governance, long term Strategic Asset Allocation (SAA) as well as shorter term Tactical Asset Allocation (TAA)

All Royal London Investments

- **Stewardship & Voting** – RLAM voted on 15,665 resolutions throughout 2019[1]
- **Engagement** – RLAM carried out 260 engagements with 175 companies throughout 2019[1]
- **High standard of investment solutions** – when investing in funds, whether they are managed by RLAM or externally, we only work with asset managers who are signatories to UNPRI and UK Stewardship Code and meet our criteria.

Background information

61% of customers believe responsible investment is linked with mutuality.[2]

60% of customers believed risk/return was the most important factor in investment decisions.[3]

In 2019 the UK was the first developed economy to commit to become net carbon neutral by 2050.[4]

360 new Sustainable funds were launched in 2019.[5]

Amendment to MiFID II will require advisers to ask clients about ESG preferences.[6]

Sustainable Fund Range

- **Suitable for investors with more specific and defined aims** – these funds aim to invest in companies which are a net benefit to society, with key themes underpinning the fund ranges investments
- **High conviction approach** – these funds have a relatively small number of holdings with low turnover
- **Combine strict ESG criteria with financial analysis** – before investing, each security undergoes a screen where it must meet the team's requirements on an E, S and G basis as well as on a financial valuation level
- **100% Active** – the sustainable range is actively managed and combines top down negative screens with bottom up security analysis
- **Narrow asset class universe** – the funds invest in equities and corporate bonds only

Sources:

1. Royal London Asset Management, Stewardship and responsible investment 2020 report

2 & 3. Responsible Investing Research Summary, Savanta and Royal London, 2019

4. UK Government department of Business, Energy & Industrial Strategy, 2019

5. Morningstar, 2020

6.The European Securities and Markets Authority, 2019

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