Meeting the requirements of the **UK Stewardship Code 2020**

Asset owner approach - October 2023

Royal London Mutual Insurance Society Limited

ROYAL LONDON

Delivering effective stewardship for a sustainable future

Our Purpose, 'Protecting today, investing in tomorrow. Together we are mutually responsible', defines the wider impact we want to make. We are focused on helping customers build their financial resilience, while playing our part in moving fairly to a sustainable world. And we deliver on this while strengthening the mutual choice for customers.

We believe that investing is about more than just generating financial returns. On behalf of our customers, we use our voice to influence positive change among the companies we invest in, whether through our voting rights or meeting with company management. If we believe a company has fallen short, we prioritise working together, rather than simply divesting, so that they deliver the outcomes that our customers expect.

Supporting the transition to a more sustainable world

The need for urgent and collective action on climate change continues to dominate our conversations. During 2022 we continued to embed our stewardship processes across our business, enabling colleagues to better understand their role in helping us meet the net zero targets we committed to in 2021.

As champions of a just transition, we engage with companies to ensure that their net zero actions support an inclusive economy, and that societal issues are considered in doing so. Even more important is the role of governments and policymakers, and we urge them to deliver on their commitments to achieve the goals of the Paris Agreement.

Using our collective strength for good

The Royal London Group leverages its position as one of the UK's largest asset managers to support our stewardship and engagement activity.

Royal London Asset Management manages over 95% of our assets. Our most recent triennial review of RLAM, to the end of September 2022, highlighted an ongoing commitment towards better integrating environmental, social and governance considerations into investment processes.

Our collaborative work with industry bodies remains key and a significant part of my recent role as President of the Association of British Insurers was to address how the trade body can help to tackle some of the biggest challenges facing the UK. A number of our colleagues from across the Group remain involved in its committees and working groups.

Given the urgency for change, we are also increasing our engagement with policymakers to drive the transition to net zero. We will prioritise the actions we take to make the most difference.

Being a signatory to the UK Stewardship Code 2020 reflects our commitment to continuous improvement and transparency against the highest standards. The outcomes of the Financial Reporting Council's review of the Code will inform how we enhance our stewardship activities and continue to use our mutuality for good.

Barry O'Dwyer
Group Chief Executive Officer

Introduction

Royal London

Royal London Mutual Insurance Society Limited (RLMIS) is the UK's largest mutual life, pensions, and investment company. We look after 8.7 million life and pension policies and have £147bn of assets under management (AUM) as at 31 December 2022, £108bn of which is held on behalf of RLMIS' members and customers.

Sustained by high-quality propositions and strong customer service, 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.

The Royal London Group comprises RLMIS and its subsidiary undertakings. Royal London Asset Management (RLAM), our internal asset manager, manages over 95% of RLMIS' assets. Although RLMIS and RLAM are both part of the Royal London Group, united by our mutual purpose, RLAM is managed separately and is overseen by its own Board.

We oversee and monitor RLAM's activities and performance in line with the arrangements described under Principle 2 (Governance, resources and incentives) and Principle 8 (Monitoring managers and service providers).

Our monitoring activities have satisfied us that RLAM meets the standards we require of all our asset managers, including a high level of responsible investment and stewardship capability.

RLAM's stewardship activity is described in the RLAM stewardship report.

Stewardship requirements and Royal London activity

The Financial Reporting Council (FRC) is part of the UK's regulatory framework. It regulates auditors, accountants and actuaries in the public interest and sets the UK's Corporate Governance and Stewardship 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, introduced in the 2020 UK Stewardship Code[1] (the Code), goes beyond the traditional view of stewardship as the act of engaging with investee companies and exercising voting rights.

The 2020 Code built on previous iterations by introducing 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 were proud that RLMIS was recognised as a signatory to the Code following our submission for 2021 activity. This builds on the same status that RLAM has held since 2021.

Reflecting the year to 31 December 2022, this report sets out how we continue to comply with the Code across its 12 principles as an asset owner.

1 UK Stewardship Code | Financial Reporting Council (frc.org.uk)

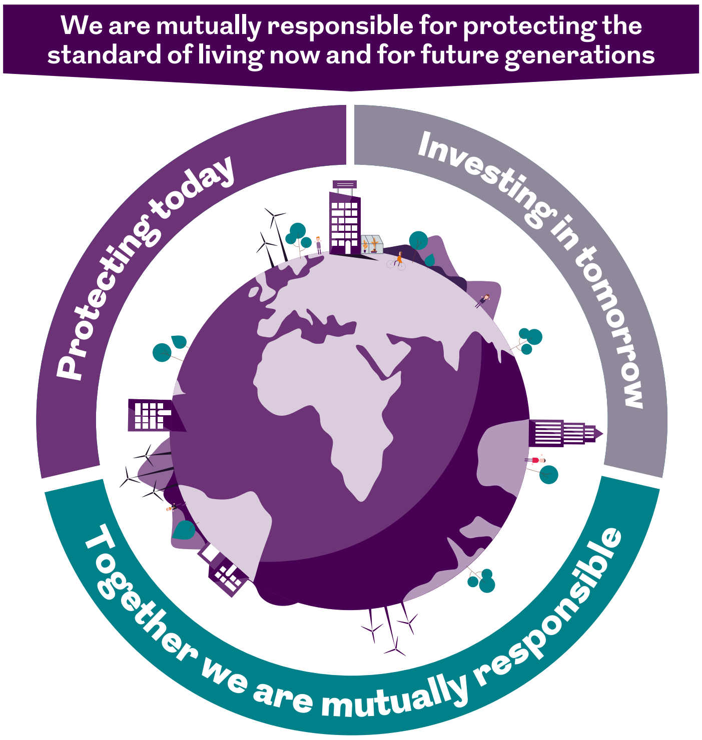
Principle 1 - Purpose, strategy and culture

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

Protecting today, investing tomorrow. Together we are mutually responsible.

Our Purpose shapes everything we do. It defines the impact we want to have on the world, for our customers and for society.



By using our mutuality for good we are focused on achieving three positive outcomes:

- **Helping build financial resilience:**
  By providing great value investment solutions we help customers to build the financial resilience they need in an ageing society. We want them to accumulate the wealth required to retire well. We protect families against life shocks along the way. We support those in wider society through our social impact activity.
- **Moving fairly to a sustainable world:**
  We use our position as a responsible investor to imagine, invest, engage and influence progress on wider social priorities. We will achieve net zero in our investments by 2050[2], be a leader on delivering a just transition, and build sustainability into our operations.
- **Strengthening the mutual choice for customers:**
  We will continue to be the leading advocate of mutuality in our sector. As a mutual our longer-term mindset and focus on customer outcomes sets us apart.

2. This commitment is based on the expectation that governments and policymakers will deliver on the commitments to achieve the goals of the Paris Agreement and that the required actions do not contravene Royal London's fiduciary duty to our members and customers. The commitment is based on our emissions profile of 2020. It includes assets that are controlled by RLMIS and are managed on its behalf by RLAM and excludes segregated mandates managed by RLAM on behalf of its external clients.

Our strategy

An insight-led, modern mutual growing sustainably by deepening customer relationships.

Through a clear strategy, underpinned by our Purpose, we create value for the benefit of our stakeholders. Our ability to deliver our strategy is enabled by our focus on three 'strategic shifts':

- **Data-led, digitally nimble:**
  We are a 'digital-first' organisation and use data to improve our customer offer.
- **Broader solutions:**
  We offer a range of high-quality solutions to meet customers' needs.
- **Mutually valued relationships:**
  We ensure our relationship with customers can last for the rest of their lives.

Our business

Products and distribution

We offer long-term savings, protection and asset management propositions in the UK and Ireland.

A significant proportion of our business is distributed through intermediaries: financial advisers (brokers in Ireland), aggregator platforms and the enrolment of employees into employer workplace schemes.

Our asset manager

We invest across a range of asset managers on behalf of our customers and members. Over 95% of our investments are managed by RLAM, which as a wholly-owned subsidiary is an integral part of the Royal London Group, with its direction driven by our shared Purpose.

As one of the UK's largest asset managers, RLAM provides the scale and capability to support our competitive, value-for-money solutions. Consistent with this, RLAM is clear and transparent with its third-party clients regarding the benefit of our shared Purpose, combined with its own operational management and governance.

RLAM undertakes stewardship and engagement activity on our behalf, subject to certain reserved rights, as well as for RLAM's external clients. RLAM has championed responsible investment since 1988 and is a long-term supporter and signatory to the UK Stewardship Code.

The combined effect of RLMIS and RLAM puts us in a strong position to influence the companies we are invested in and the wider industry to deliver our Purpose outcomes.

Our culture

Our values

Our People Promise is our collective commitment that our workplace will be inclusive, responsible, enjoyable and fulfilling where all colleagues can thrive and experience a sense of belonging. This is underpinned by a set of values that make up what we call the Spirit of Royal London – we are empowered, we are trustworthy, we achieve and we collaborate.

Our mutuality

Our mutual status means that when Royal London Group does well, so do our members. The profits we make are either returned to eligible customers through our ProfitShare scheme or reinvested in the business to enhance the quality and security of the services we provide.

Most Royal London Group employees are Royal London members through our in-house pension arrangements, consistent with those offered to the external market. As a result, employees have an additional incentive and alignment to ensure we meet our purpose-driven objectives.

Colleagues enrolled in our in-house pension arrangements are encouraged to take an active part in our Annual General Meetings as Royal London members and vote on resolutions that ensure the interests of RLMIS are aligned with those of its members.

Investment Philosophy and Beliefs

Our Purpose, strategy and culture drive our 'Investment Philosophy and Beliefs', a set of principles that guide how we select and manage investments.

Through our Investment Philosophy and Beliefs we recognise our customers' objectives and risk profiles, investing in well-diversified and actively managed portfolios. 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 have been informed by customer research, shape how we invest and influence our investment processes. These 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 can reduce overall portfolio risk.

Investing in tomorrow

- 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.
- We believe that over the long term, the most significant risk/return optimisation factor is the strategic asset allocation.
- We believe the appropriate investment style for a region, asset class, sector or theme may change over time.
- 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.

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*. This means:
  - embedding externalities such as environmental, social and governance (ESG) considerations into our investment decisions; and
  - positively influencing the change that needs to happen in the economy and society through strong stewardship and by supporting the capital investments necessary to drive the transition towards a low-carbon economy.

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.

We have 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 Task Force on Climate-related Financial Disclosures (TCFD) reports, available on our website.

In 2023 we will review and refine how we measure progress against all our Purpose outcomes.

Serving our customers and members in 2022

We believe that our three Purpose outcomes help us seek to protect the standard of living for our customers now, and for future generations. We assess our effectiveness against this in several ways, including assessments against benchmarks, customer research, and the work of our Independent Governance Committee.

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. More information on how we gather feedback from customers and consider their needs is provided under Principle 6 (Client and beneficiary needs).

We also achieved the grade A- for environmental disclosure, awarded by CDP, an independent body. This is a significant improvement from the grade C awarded in 2021.

Our objective to maintain signatory status of the UK Stewardship Code 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 this in 2023, being clear on the impact we want to have and how we will measure this across all our Purpose outcomes.

Principle 2 - Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship

Governance

We operate a governance framework that facilitates efficient, effective and transparent decision-making. Our committee structure is set up to make sure appropriate expertise and diverse opinions are engaged in managing and overseeing our affairs.

The Royal London Board is responsible for promoting the long-term sustainable success of the Group in a manner that seeks to generate value for our members while taking account of the interests of all its stakeholders. This includes 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 implement its strategy and objectives in line with its culture, values and ethical and regulatory standards.

The Board Investment Committee supports the Board in discharging its responsibilities regarding investment matters, in a manner consistent with our Investment Philosophy and Beliefs. The Board Investment Committee reviews, approves or makes recommendations to the Board and other Board committees in relation to:

- compliance with the RLMIS investment risk framework
- terminations or appointments of material asset managers, fund managers or investment service providers
- the asset classes used for investment, including any proposed investments outside of approved asset classes
- strategic asset allocation decisions and the RLMIS strategic asset allocation (SAA) framework
- the performance of asset managers, fund managers or investment service providers.

Other committees relevant to stewardship activity include:

- The Independent Governance Committee (IGC), which acts independently to assess the ongoing Value for Money provided by RLMIS for Workplace Pension customers and Investment Pathways customers. The IGC's remit includes consideration of ESG factors that are material to the suitability of an investment.
- The With-Profits Committee (WPC), which advises the Board in considering the interests of all policyholders with an entitlement to a share in profits. Given our mutual status, the WPC plays a key role in stewardship.
- The Investment Advisory Committee (IAC), which comprises five pensions and investment experts including the Chief Investment Officer of RLAM, the Group Investment Director, an Independent Chairperson and an Independent Representative. The IAC advises management, with a focus on the proposition design and performance of our Governed Range. This provides impartial challenge and clarity of thought to address issues and identify opportunities and solutions, ensuring the continuous improvement mindset needed to deliver our Purpose.

Full terms of reference of the Board and all its committees are available on royallondon.com.

All governance committees must demonstrate that they take stakeholder and ESG considerations into account. A mandatory template, prescribed in Board and committee paper templates, acts as a tool to embed these key considerations 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. More information on our Board evaluation mechanisms, including progress against previous recommendations, is available in our Annual Report and Accounts.

In addition, every three years the Board evaluates its effectiveness with external facilitators. In 2022, the Nominations and Governance Committee oversaw the work, led by the Chairman. This included the appointment of a specialist board review firm to conduct the evaluation.

The 2022 review concluded that the Board and its committees continue to be effective, focused and engaged. A number of recommendations were identified and progress against these will be reported in our 2023 Annual Report and Accounts.

2022 stewardship governance

In 2022 the Board Investment Committee undertook its annual review of our Investment Philosophy and Beliefs. While there were no significant changes, updates were made to further embed and clarify the focus on responsible investment, stewardship and engagement. For example we shared and embedded our Stewardship and Engagement Policy, updated in 2021, with our asset managers. New biannual stewardship meetings were also introduced with all our key asset managers, as described under Principle 8 (Monitoring managers and service providers).

SAA reviews, undertaken during 2022, applied our investment beliefs, such as customer focus and diversification, while applying our SAA framework to consider economic and climate scenarios.

The Board Investment Committee continues to monitor the embedding of our Purpose and strategy into investment activities. During 2022, RLMIS provided seed funding for the launch of three new RLAM funds focused on climate and sustainability objectives, as described under Principle 7 (Stewardship, investment and ESG integration).

Our relationship with RLAM

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

Every three years, we carry out a formal review of RLAM to assess whether it should continue to manage the majority of our customers' assets. In 2022, the triennial review of RLAM concluded that it has continued to deliver in line with our Investment Philosophy and Beliefs while demonstrating the necessary capabilities in executing our chosen investment strategies. More information on the triennial review of RLAM is provided under Principle 8 (Monitoring managers and service providers).

Resources

RLMIS's 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 RLAM to help bolster stewardship-related activity across the Group.

Building our internal capability

We have placed responsibility and sustainability at the core of our Purpose, and are committed to consistently and measurably aligning our activities to this Purpose.

Within RLMIS, the Investment Office is a dedicated team of investment professionals who have responsibility for developing RLMIS's investment strategy and 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 (AMO) framework.

The AMO framework also includes structured oversight of asset managers' adherence to relevant RLMIS policies, including: our Stewardship and Engagement Policy; our Exclusions Policy; and our Voting Policy and related voting principles and internal voting guidelines. Further information on our asset manager oversight activity is provided under Principle 8 (Monitoring managers and service providers).

More widely the Investment Office monitors regulatory developments relevant to investment matters, and develops and executes the Group's investment strategy.

The Investment Office team includes 22 investment professionals. This includes the Investment Strategy Director and the Head of Oversight. The Investment Office is led by the Group Investment Director. The investment experience within the team covers investment strategy, implementations, proposition, risk management and analytics, fund performance, fund operations and asset management oversight. The team also benefits from subject matter expertise across responsible investment, sustainability and other stewardship aspects.

Every year, the Board Investment Committee reviews the effectiveness and capabilities within the Investment Office, making recommendations to the Group Chief Financial Officer as required. In 2022, the committee concluded that the resources and skill sets of the Investment Office were appropriate to allow it to achieve its aims, and that the Investment Office had continued to effectively serve RLMIS's Purpose outcomes.

To support our delivery of effective stewardship outcomes, a Group Sustainability & Stewardship (GSS) team was established in January 2022 within our CEO Office. The GSS team includes 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 GSS team is led by the Head of Group Sustainability & Stewardship, who reports to the CEO Office Director.

The GSS team works closely with stakeholders across the Group to progress and embed good practice across sustainability and stewardship activities. Our collaborative approach helps to engage all areas of the business in understanding and integrating these key issues into their day-to-day and strategic planning activities.

Core functions in RLMIS outside the Investment Office and GSS also allocated resources and provided specialist expertise over 2022 to progress the delivery of the product, investment and operational sustainability goals of RLMIS.

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 the climate crisis on our funds and capital position, and to address regulatory expectations
- Group Risk & Compliance specialists, who embed climate change into the RLMIS risk management framework.

We also supplement our internal capability with external resources as needed. For example, in 2022, we engaged an external consultancy to support reporting activities, freeing up internal resources to focus on stewardship activities.

Given that RLAM manages over 95% of our investments and is an integral part of the Royal London Group, RLMIS also benefits from the capability and expertise of RLAM colleagues. During 2022, the Responsible Investment (RI) team in RLAM grew to 17 individuals, including five new colleagues in RLAM's RI Futures Academy, a comprehensive training programme to develop future RI leaders.

In 2023, we will continue to work with our People team to develop and deliver further training for Royal London colleagues.

The Royal London Sustainability Learning Programme

Our Sustainability Learning Programme, developed in collaboration with the University of Edinburgh Business School, was delivered in 2022. Over 140 colleagues across six cohorts attended this eight-week programme for colleagues whose roles impact our stewardship activities. The course was a key tool for further embedding climate and sustainability-related considerations into colleagues' roles.

The course covered four topics: (1) The role of financial services in supporting a thriving society by providing services that meet consumer needs; (2) The responsibility of individuals in addressing the climate and sustainability crisis and the need to embed this in everyone's roles across our business; (3) Climate change fundamentals including terminology, emissions sources and measurement, climate scenarios, mitigation and adaptation; (4) Climate change fundamentals in practice, including ESG data, modelling, investment decision-making and portfolio analysis.

Live sessions and an interactive forum allowed colleagues to share ideas and lessons learned. Attendees were asked to set clear goals for themselves for 2022 aligned to our Group climate targets.

Diversity and inclusion at Royal London

We champion an inclusive culture, supporting our inclusion networks – DAWN (Disability AWareness Network), PRIDE, REACH (Race, Ethnicity and Cultural Heritage) and Women's Network – with a programme of inclusive activities and events.

We launched our 'everyday inclusion' conversations toolkit, encouraging every team to consider their diversity and work together to agree actions to further increase inclusivity.

Our colleagues enjoyed our biggest National Inclusion Week in September 2022, focused on allyship; we celebrated our Summer of Pride with a range of activities, including Royal London's first attendance at Manchester Pride. We also continued to collaborate and learn from each other about our wider cultural heritage including our Ramadan fast-a-thon, South Asian Heritage Month and our Black History Month celebrations.

We are committed to our Race at Work Charter and also, as signatories of the 2016 Women in Finance Charter, we have committed to reach 42% of women in senior roles by 2025. As at December 2022 this was 37.2%.

We have taken further steps to attract, retain and progress workforce diversity. Key successes have been our Career Confidence programme for 143 colleagues and our Reciprocal Mentoring programme, matching our Executive Group with members of our REACH inclusion network. Our progress was recognised as a finalist in the Personal Investment Management and Financial Advice Association's Best D&I Initiative (Large Firm). We were awarded the Bronze Winner Most Authentic Approach to Diversity and Inclusion: UK National Contact Centre Awards 2022 and we achieved Silver Accreditation from the Irish Centre for Diversity, Ireland's premier D&I accreditation mark.

Additional stewardship resource investments

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 2022, MSCI ESG Fund data was actively used to assess our portfolios, increasing our capability to monitor and oversee our asset managers.

The purchase of AssetQ data on funds and investment companies has allowed us to improve our asset manager due diligence onboarding process and refine our approach to asset manager oversight.

Scenario modelling

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

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

Performance management and reward

Bonus schemes

Royal London Group has an incentive framework that focuses activities on delivery of key strategic objectives. The framework includes a Short-Term Incentive Plan (STIP), which applies to both RLMIS and RLAM employees, and a Long-Term Incentive Plan (LTIP) applying to certain members of the Group Executive. Both are based on a set of targets and metrics approved and monitored by the RLMIS Remuneration Committee. These targets and metrics are based on scorecards that track delivery of key outcomes.

The STIP and LTIP are grounded in our Purpose and help instil behaviours that contribute to delivering long-term sustainable value for our members and other stakeholders.

Principle 3 - Conflicts of interest

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

Royal London Group is committed to meeting the highest standards of personal and corporate ethics in all its activities.

Our 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 CoI Policy also applies to any other individuals operating on behalf of the Group, such as consultants, contractors and agency workers.

The CoI Policy requires each of the above to take reasonable steps to identify and manage conflicts and always act in the best interests of our customers. This includes the need to ensure transactions are effected on terms that are not materially less favourable to our customers than if an identified conflict had not existed. Failure to declare an interest is regarded as misconduct and may lead to disciplinary action.

We recognise that the Group may encounter a range of conflicts. Potential stewardship conflicts addressed by our 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 clients – such as a pension client or a supplier.
- Interactions between Group companies – such as between RLMIS and RLAM.

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 Board reviews the interests of the directors and has to authorise any interests that conflict, or potentially conflict, with the interests of the Group. In addition, at the start of each Board and Board committee meeting, members are reminded to disclose any conflicts of interest, having had a chance to consider the meeting agenda.

The 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 periodically reviews conflict authorisations to determine whether the authorisation given should continue, be added to, or be revoked by the Board. When the Board authorises a conflict of interest, it will do so on the basis of mitigating controls such as recusal from Board discussions that relate to the situational conflict.

The risk of conflicts arising from RLMIS investing in its clients (for example, employers with a Royal London Group Personal Pension arrangement) is mitigated by delegating our investment decisions to our asset managers. With the exception of cases where employers or pension scheme advisers request specific RLAM input, 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, including RLAM, also have their own conflict of interest policies, which helps us to further manage the risk of conflicts.

Conflicts arising from interactions between Royal London Group companies are managed via our Board arrangements. As discussed under Principle 2 (Governance, resources and incentives), RLAM is a wholly-owned subsidiary of RLMIS with clients external to the Royal London Group. To help manage this potential conflict, RLMIS conducts a triennial review of its arrangement with RLAM, including consideration of its investment philosophy, investment performance, capabilities, fees, resources and client management. More information is provided under Principle 8 (Monitoring managers and service providers). The roles of the IGC and WPC 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 Royal London Group companies, for example between RLMIS and RLAM. This policy requires the appointment of a Relationship Owner which, in the case of the Group's relationship with RLAM, is the Investment Office's Head of Oversight.

RLAM carries out key stewardship activity on behalf of the Group. While this relationship needs to be carefully managed, co-operation between RLMIS and RLAM enhances our shared capabilities and benefits RLMIS customers. More detail on stewardship activity RLAM 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 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 RLAM through the RLAM Strategic Partnership team, which is dedicated to managing the RLMIS/RLAM relationship.
- RLMIS carries out a triennial review of its arrangement with RLAM, as described on the previous page.
- Our Seeding Policy sets out how RLMIS provides seed funding for new RLAM funds. Further information on our seeding activity is provided under Principle 7 (Stewardship, investment and ESG integration).
- The Material Outsourcing 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 AMO framework oversees the performance of our asset managers. It is applied consistently across asset managers with enhanced requirements established for RLAM. Further information is provided in Principle 8 (Monitoring managers and service providers).
- The RLMIS Voting Policy sets out how we expect our asset managers to vote on resolutions in company holdings managed on our behalf. More information on our Voting Policy is set out under Principle 12 (Exercising rights and responsibilities).

In 2022 there were no material conflicts of interest requiring disclosure.

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 fundamental to our Purpose, delivering our strategy, serving our customers and growing our business safely.

The Board with the support of its Risk and Capital Committee is responsible for the Group'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 Group 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.

Effective risk management aims to address the significant risks we are exposed to, so that our business remains sustainable and continues to serve our customers.

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**
  A report on emerging themes (in the short, medium and longer term), in-flight consultations and changes in these themes in the previous quarter. This is owned by the Group Risk & Compliance (GR&C) team.
- **Regulatory update newsletter**
  A regular newsletter compiled by the GR&C team 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 (ESRF). The ESRF comprises members from across the Group 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 2022 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 2022 we monitored and managed the risks the climate crisis could pose to the Group and to our propositions. More information on how we manage climate risk is provided in our TCFD report. We continue to engage with our regulators and industry peers to support developments required to address the climate crisis.
- **The economy and Royal London's key markets**
  We review our business to ensure we have plans in place to tackle today's challenges – over 2022 this included economic instability underpinned by growing inflationary pressures, amplified by the war in Ukraine.
- **Changing political and regulatory environment**
  There has been a significant amount of political change in 2022. The current UK government is pursuing a policy of fiscal tightening at a time of inflation, low growth and cost of living pressures. We also continue to work with industry bodies such as the Association of British Insurers (ABI) to review and respond to consultations on regulatory change.

Principal market-wide and systemic risks will continue to evolve beyond those listed above in respect of 2022. Over 2023 we will continue to consider the rapidly evolving universe of external risks, such as the ongoing war in Ukraine and cost of living pressures. We will also continue to consider the impacts from the Covid-19 pandemic, and the continuing uncertainty about how the UK will navigate an evolving trading environment following its withdrawal from the European Union.

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.

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.

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 (ORSA). Climate-specific risks are typically grouped into two categories, Physical and Transition, which we describe in the table below.

Our largest exposure to climate change risks is the impact they may have on the assets we manage for our customers and members. To help manage these risks we have embedded climate risk evaluation into our strategic asset allocation (SAA) process and have moved the passive equity portfolios in our Governed Range to tilted funds.

We have taken steps to develop our understanding of the possible impacts of climate risk by carrying out climate scenario analyses to assess the impact of climate 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 TCFD report.

Climate risk category	Description	Sub-category	Sub-category description
Physical	Risks related to the physical impacts of climate change	Primary	Damage to land, buildings, stock or infrastructure owing to physical effects of climate-related factors, such as heatwaves, drought, sea levels, ocean acidification, storm or flooding.
		Secondary	Knock-on effects of physical risks, such as failing crop yields, resource shortages, supply chain disruption, as well as migration, political instability or conflict.
Transition	Risks related to disorderly adjustments to markets as a result of the transiltion 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.

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).

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. Over 2022 we led and participated in a number of industry forums and initiatives focused on reducing and mitigating the effects of the climate crisis, and the just transition, in line with our engagement priorities. More information on our engagement priorities is provided under Principle 9 (Engagement).

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 the Long Standing Customer Committee, the Financial and Corporate Reporting Committee and the Climate Change Working Group.

In 2022, our CEO Barry O'Dwyer was President of the ABI and helped the trade body to redefine its purpose and strategy. The new ABI purpose 'Together, driving change to build and protect a thriving society' has three societal outcomes:

- To be trusted by customers
- To be invested in people and our planet
- To work within an effective market, with a legislative, regulatory and tax framework that unlocks the full potential of our sector.

The ABI's new strategy represents a real step-change in its commitment to tackle the challenges facing the UK.

In 2022 we also worked with the ABI to respond to the call for evidence to support the independent review of the UK government's approach to delivering net zero.

Climate and Financial Risk Forum (CFRF)

In 2022 we chaired and contributed to various workstreams from the CFRF working groups, including the Data, Disclosures and Metrics Working Group. This led to a number of publications, including guidelines on climate solutions, managing the legal risks of disclosures, and a carbon primer for financial institutions.

Financing a Just Transition Alliance (FJTA)

One of our Purpose outcomes is to play our part in moving fairly to a sustainable world. In 2022 RLAM, acting on behalf of Royal London Group, contributed to the report 'Making transition plans just' published by FJTA. RLAM also contributed to a tool for integrating a just transition in banking and investment activities, launched at COP27.

Institute and Faculty of Actuaries (IFoA)

In 2022 we participated in the IFoA Net Zero Portfolio Alignment Working Group, which published 'Net Zero Investing – A Beginner's Guide'. We are also a member of the Life Climate Change Working Party and co-presented at the annual IFoA Life Conference on practical insights into the implementation of climate risk management.

Financial Conduct Authority (FCA)

Sustainability Disclosures Requirements (SDR)

We are supportive of the FCA's ambition to tackle greenwashing and we have engaged extensively on its SDR and investment labels consultation paper. This has involved participating in industry roundtables run by the UK Sustainable Investment and Finance Association (UKSIF) and the ABI to shape and influence their responses, as well as shaping our own response.

We met with the FCA to share our views on some of the potential unintended consequences of the consultation paper, and highlight practical concerns. For example, the ban on terms such as 'responsible investment' could have a detrimental impact on firms' ability to disclose their strategy, and there are uncertainties surrounding how multi-asset solutions would apply a label. The FCA is yet to publish its policy statement.

Consumer Duty

We also engaged extensively on the new Consumer Duty, which aims to deliver better outcomes for consumers and came into force in July 2023. We had previously written a paper on the need to include ESG considerations when assessing member outcomes. We reiterated this point in our input to the final regulations on the Consumer Duty and we are seeing increasing commentary on the need to consider their inclusion.

British Standards Institute (BSI)

We are working with the BSI to develop standards for the assessment, monitoring, labelling and communication of responsible and sustainable investment funds, both as a sponsor to the work and also as a steering group member. The aim of this work is to raise the standards underpinning sustainable investment management in the UK.

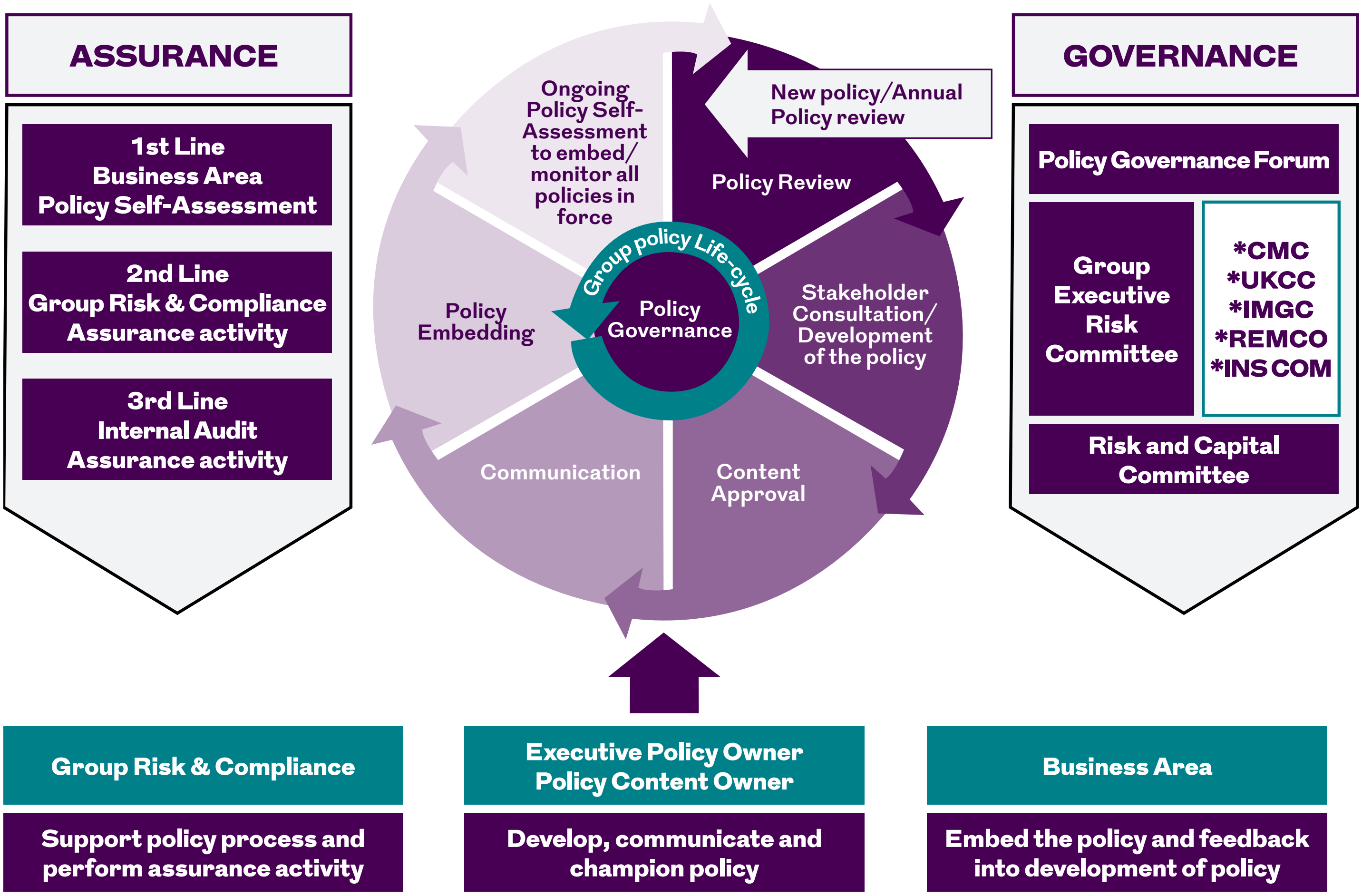
Effectiveness review

In November 2022, the Royal London Board reviewed our progress against achieving our Purpose outcome of moving fairly to a sustainable world. Given the need for governments and policymakers to deliver on the commitment to achieve the goals of the Paris Agreement to enable our industry to transition, one area of focus for 2023 is to develop a plan to prioritise our engagement on activities most likely to make a positive difference.

Principle 5 - Review and assurance

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

Our policy framework forms part of the Risk Management System maintained by the Group Risk & Compliance function.



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

Policy review process

The Group policy framework applies to the entire lifecycle of a policy including development, consultation, approval, communication, embedding and effectiveness review.

Each policy is owned by a member of the Group Executive, who is accountable for the policy being embedded in the business and reviewed in line with the annual review process, set and monitored by our Group Risk & Compliance function. Policies have local policy owners responsible for the day-to-day embedding and assessment of the effectiveness of the policy implementation.

All policies must be reviewed by their respective owners in line with the policy's established life cycle. Annual reviews ensure all activities undertaken by RLMIS align with our policies. Triennial reviews ensure policies are aligned with regulatory expectations and industry standards. In combination these reviews allow owners to ensure their policies remain relevant and up to date, and that related processes are improved on a continuous basis.

Policy owner reviews consider:

- new regulation or legislation
- relevant findings from audit or compliance reviews, or self-assessments
- feedback from the business on challenges in embedding the policy
- changes to the Group's risk appetite framework, including risk appetite statements.

Reviews include consultation with relevant stakeholders and a detailed review from our Group Risk & Compliance function.

Stewardship and Engagement Policy

The RLMIS Stewardship and Engagement Policy, incorporating our Exclusions Policy and Voting Policy, was established in 2021. In 2022 we focused on embedding these policies, as described under Principle 8 (Monitoring managers and service providers). The next triennial review of these policies will take place in 2024.

Our Stewardship and Engagement Policy, Exclusions Policy and Voting Policy set out the principles we apply as an asset owner and the responsibilities we retain, including:

- the definition of our engagement priorities
- 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.

Policy review in 2022

Given the significant changes made to our stewardship-related policies and processes in 2021, the focus in 2022 was on embedding activities. As a result, no significant changes were made to these policies in 2022.

However, in preparation for the Consumer Duty coming into effect in July 2023, we have reviewed relevant policies and related procedures in 2022. As a result, we will have a new Customer Outcomes Policy in 2023, which supports our objective to put the interests of our customers at the heart of what we do and deliver good outcomes for all our customers.

Three lines of defence and control framework

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

- 'First line' business units and Group functions have primary responsibility for managing risks. In line with our Group risk management framework, all business areas must attest to the design and effectiveness of their controls twice a year. This includes business units and Group functions with stewardship responsibilities. Executive management manages the risks affecting their areas of responsibility.
- Our 'second line' is our Group Risk & Compliance function, independent from business units and Group functions. The second line provides specialist advice, oversight, challenge and assurance. This includes assessing adherence to relevant internal policies and external regulation.
- Our Group Internal Audit function represents the 'third line'. This provides independent assurance and has a reporting line independent of executive management.

Assurance

As noted under Principle 2 (Governance, resources and incentives), stewardship activities are overseen and assessed every year by the Board Investment Committee.

We are in regular discussions with our internal auditors, external auditors and other external providers to consider our stewardship-related assurance requirements, taking into account the evolving ability of these independent third parties to provide suitable assurance.

Following our 2022 annual review of overall stewardship assurance requirements, and in line with our annual internal audit plan of work, the Group Internal Audit function is planning a review of Investment Office oversight activities during 2023.

Review of our Stewardship Report

This Stewardship Report was produced by the Group Sustainability & Stewardship (GSS) team in conjunction with relevant business areas. The process included information validation and the following review steps:

- Review and approval from the Board Investment Committee
- Review by relevant members of our Group Executive Committee and other members of senior management
- Second line review by our Group Risk & Compliance function.

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 our customers' time horizons, perception of risk and sustainability preferences. We need to understand and balance our customers' needs to ensure we are generating risk-adjusted term-appropriate investment returns in a responsible way.

Our stewardship approach is therefore underpinned by an understanding of the needs and wants of our 8.7 million life, pension and protection 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.

Long-term savings	Protection	Long-standing customers[1]
• Workplace Pensions • Individual Pensions • Annuities • Equity Release	• Life Insurance • Illness and Income Protection • Business Protection	• Pensions • Annuities • Protection
2,100,000 Policies	**1,188,000 Policies**	**4,970,000 Policies**

Ireland	Collective investment funds and segregated mandates
• Individual Pensions • Life Insurance • Illness and Income Protection • Business Protection	• Equities • Fixed Income • Multi-asset • Private-asset
474,000 Policies	**£147.2bn AUM[2]**

(as at 31 December 2022)

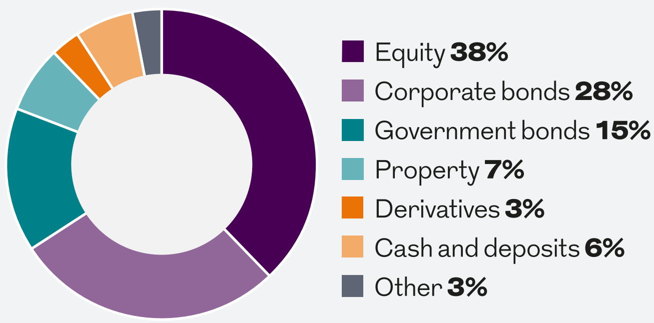
1 Includes customers invested in funds closed to new business.
2 Includes external assets managed by RLAM on behalf of external clients.

Most of our pension customers are either in Workplace Pensions (Group Personal Pensions) or Individual Pensions, which are defined contribution schemes. Our products do not include master trusts. A small number of long-standing products are held by defined benefit pension schemes.

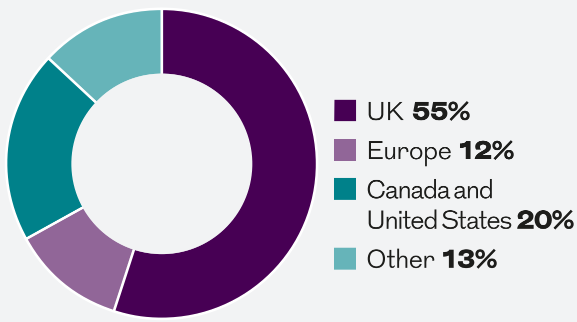
As of December 2022 we were supporting approximately 20,000 employers and over 1.7 million customers with their Workplace Pensions.

We invest £108bn on behalf of RLMIS customers (as at 31 December 2022), across a variety of asset classes and geographical locations as highlighted in the charts below.

RLMIS assets by asset class



RLMIS assets by geography



How we invest for our customers

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

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

Our pension products' lifestyle investment strategies, including the auto-enrolment workplace default, are constructed from our multi-asset Governed Range portfolios. The objective of our lifestyle strategies is to gradually reduce risk as members approach retirement, to help protect the money they have spent years saving.

Our customers move through our underlying portfolios as they get closer to retirement. We have a set of nine 'Governed Portfolios' which are designed by risk level and number of years to retirement. Specifically, they are designed for terms of 15, 10 and 5 years from a chosen retirement age. As our customers reach these respective points in time from retirement they are fully invested in the corresponding Governed Range portfolio. In this way, the time horizon of our customers' investment strategies matches their term to retirement as they move through the last 15 years of their lifestyle strategy.

For example, our Workplace Pensions customers, with an average age of 41, sit in the Balanced Lifestyle Strategy by default. This strategy starts in Governed Portfolio 4, which is our long-term balanced-risk portfolio, with around 90% invested in risk-seeking assets. Once in retirement, customers move into our Governed Retirement Income portfolios, which includes five risk-targeted portfolios designed specifically to support income drawdown. These customers have an average age of 67.

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 our Main Fund investment strategy, in accordance with its PPFM, is to optimise the long-term return on investments for Main Fund with-profits and deposit administration policyholders, while recognising the need for the fund to meet its guaranteed liabilities and commitments to policyholders and maintaining the fund at the target size.

The SAA 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. We continue to engage Moody's Analytics to use their proprietary tools to support our SAA. We also extended our engagement with Moody's Analytics to include climate-impact scenario analyses. From 2022 we integrate the outcome from these climate scenario analyses into our SAA processes across the Governed Range and LTFs. Further ESG-related considerations applying to the stewardship of our customers' money 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 longer-standing customers in older products and investment solutions and some in our Matrix Range.

The management of long-standing investments follows a similar philosophy to that described above for our Governed Range. 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 RLAM on the same asset allocation as our Governed Portfolios.

The Matrix Range is intended for pension customers who want bespoke investments. Customers can invest directly in these or tailor a Governed Portfolio by swapping out the equity component for a Matrix fund of their choice. The funds on this range are reviewed by our Independent Advisory Committee.

SAA and customer needs

Our customers have a wide range of terms to maturity. From policyholders expecting to withdraw their money this year to younger pension policyholders, we must appropriately steward all our customers' assets over both the short term and for decades to come.

Customers' risk profiles differ by product and across customers holding the same products. For example, younger accumulating pension customers are typically able to bear a higher proportion of equity and property investments in their portfolio. Meanwhile, customers approaching full withdrawal or the start of their decumulation journey are better served by an asset class mix that, while still aiming for reasonable long-term real returns, also looks to reduce market risk.

These considerations impact our approach to stewardship. We balance our SAAs 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 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 individuals' expected terms.

Understanding customer concerns

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

- Customer relationship studies
- Regular consumer market research
- Annual General Meeting (AGM) votes and questions.

We regularly reach out to our customers through customer relationship studies, to understand their views on key impactful topics and how they believe we should act on these issues.

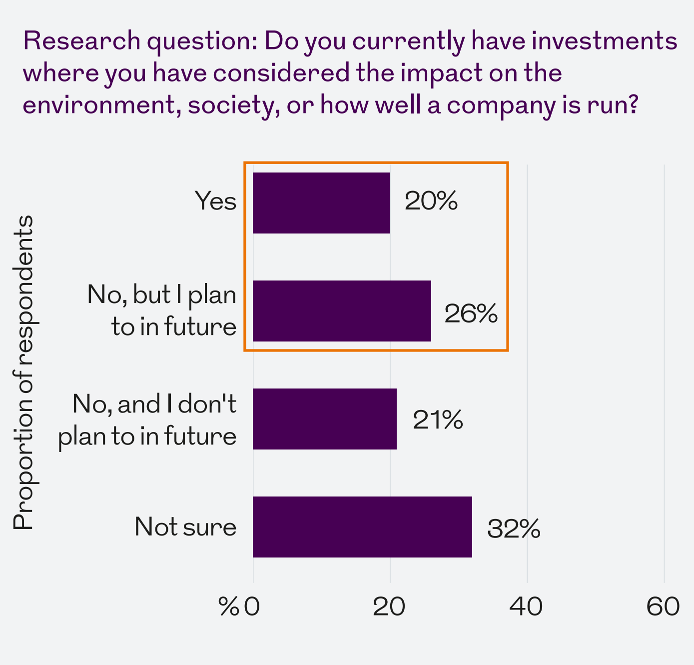
Our two key research panels enable us to quickly carry out robust research with customers and financial advisers, enabling in-the-moment feedback to drive better customer outcomes. Our customer panel comprises a representative sample of around 650 customers, while our adviser panel consists of more than 250 advisers and paraplanners. We use these panels to understand customer and adviser views towards our products, services, communications, and evolving customer needs.

Our wider consumer research has shown growing public concern over the climate crisis. In June 2022 Royal London carried out research, on a nationally-representative sample of 4,000 UK consumers, which showed that awareness of investing responsibly is increasing. Just over one in two claimed to be familiar with the term 'responsible investment' in 2022.

This is almost double the level seen in our 2020 research. Over 50% of UK investors are willing to pay additional fees for their investments to have a positive impact on issues they care about, with the most common issue being climate change.

As shown in Figure 1, 46% of UK investors surveyed by Royal London have, or plan to have, investments where they have considered the impact on the environment, society, or how well a company is run.

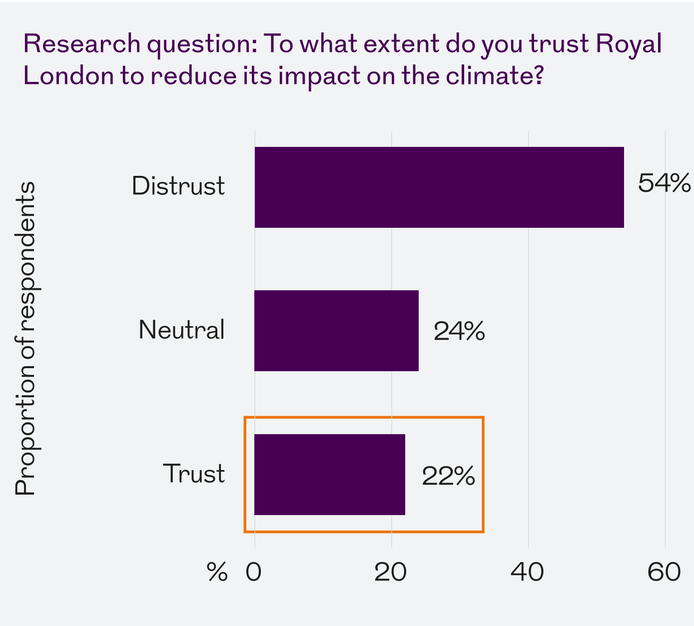
Figure 1



Source: Royal London research based on 3,258 investors, July 2022

As shown in Figure 2, the results of our Customer Relationship Study from November 2022 suggest there is still work to be done in terms of communicating effectively how we are tackling climate change. Just over two in 10 said they trust Royal London to reduce its climate impact. This highlighted the need to improve our communication with customers.

Figure 2



Source: Royal London research based on 3,204 customers, November 2022

In addition to receiving customer feedback through regular surveys, our status as a mutual means that our members have a direct say in how we run our business through their AGM voting rights.

Topics of discussion from our 2022 AGM include:

- climate change impacts
- diversity and inclusion
- our voting practices in high carbon-intensity industries
- investment in nuclear weapons
- Royal London Board governance.

Reflecting research outcomes in stewardship activity

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.

As described under Principle 8 (Monitoring managers and service providers), there were no instances in 2022 where our asset managers did not follow our Stewardship and Engagement Policy.

The research described in the previous section will inform future updates to the Stewardship and Engagement Policy, as well as our review of engagement priorities.

Our customer research also informs our proposition development activities. For example, in 2023 we will undertake a strategic review of our investment strategies and related optionality for customers. The research described in the previous two pages represents 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 customers' financial wellbeing through research

We also use customer research and feedback to improve the support we provide to our customers across a number of tools.

For example, we continue to make enhancements to our mobile app. Customers can access articles and guides from the app on key topics such as budgeting, cost of living, and life's harder moments such as job loss, separation, or bereavement. We also provide access to tools, helping customers find out how much they could be entitled to from their State Pension, their attitude to risk and a link to our financial wellbeing service.

Launched in 2022, our financial wellbeing service empowers our customers to take control of their finances and work towards improving their financial resilience. By completing a financial health check, customers are recommended guides and tools tailored to their needs, enabling them to receive the right support and make informed decisions. With interactive tools, such as an online chat function, the experience is personal, engaging and user-friendly.

The MyRoyalLondon customer portal was also made available to customers with Personal Menu and Business Insurance products in 2022. As well as accessing guides and articles on subjects ranging from coping with unexpected life changes to understanding power of attorney, our customers can access our 'Helping Hand' service. This is our package of health and wellbeing services, including free 24-hour access to a virtual GP.

In 2023, MyRoyalLondon will also provide customers with an easy to understand overview of their cover and help them to keep their personal details up to date through a self-service functionality. Customers will also be able to view and download their key policy documents, and contact us using a secure online form if they need extra help or support.

Communicating with our customers

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 TCFD reports
- customer newsletters
- our mobile app
- advertising in the media
- social media platforms.

We use our website, royallondon.com, to keep our customers up to date with how we are actively addressing key issues that may impact their investments.

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 10 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 don't 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 ensuring our customers know their values are considered. We are therefore exploring how we can integrate the climate-related data we have published in our TCFD product-level reports in a more meaningful way for customers to digest.

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.

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.

Research effectiveness review

Every year we review the frequency, sample size and mix of research approaches, such as online surveys and telephone interviews. In 2022 we reviewed the range of ad-hoc customer studies that we undertake to understand emerging trends, and decided to take a more structured approach. As a result of this review, we will launch a new quarterly Consumer Monitor research study in 2023 to better understand how consumer priorities and concerns are evolving over time.

Our research approach and methodology are also reviewed on a regular basis and reported to our UK Customer Committee (UKCC).

Our UK Customer Committee

The UKCC helps to ensure our customer outcomes are in line with our Purpose, strategy and Conduct Risk 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 Conduct Risk by our Chief Customer Officer (CCO)
- coordination of collaborative cross-functional activities aimed at delivering good customer outcomes.

UKCC attendees include our Group CEO, CCO, Group Chief Commercial Officer, Group Chief Marketing Officer, Group Chief Operating Officer and Group Chief Risk Officer.

Following the publication of the final Consumer Duty regulations, we reviewed our policies and processes in 2022. We have made plans to bring them into effect ahead of the Consumer Duty coming into effect in July 2023. More information on this is provided under Principle 5 (Review and assurance).

This will enhance the arrangements already in place driving the UKCC focus on customer outcomes.

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

Principle 6 (Client and beneficiary needs) addressed how we gather information to better understand our customers and how this impacts our stewardship activity to ensure favourable outcomes.

Having listened to our customers, we identified two themes to prioritise within our asset owner stewardship and engagement activity:

- Climate change
- Inclusion (focused on a just transition).

We identified climate as a priority issue from our customer research. From knowing that a large portion of our customers are invested over a longer term, we recognise that they are materially exposed to risks arising from the climate crisis.

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. For this reason, a just transition was also identified as a priority.

These priority issues are considered in all our stewardship activities and have been integrated into our proposition and asset manager mandates through:

- ESG equity tilts
- engagement activities
- seeding sustainable funds.

Our priorities will be reviewed in 2023 and will take 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.

A key element of good stewardship is the regular, ongoing engagement with our asset managers and, through them, with the companies and projects in which we invest on behalf of our customers. This is set out in our Stewardship and Engagement Policy, providing 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.

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

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 the engagement.

Although we favour engagement over exclusions, in specific circumstances we will exclude certain companies in line with our Exclusions Policy.

We recognise the need to focus our resources on activities where we can have the most influence and impact. This is something we are continously reviewing.

While we are focused on the UK market, our policies are applicable across all geographies. More information on our voting activity is provided under Principle 12 (Exercising rights and responsibilities).

The equity element of our multi-asset portfolios is predominantly invested in RLAM's tilted equity funds. These use quantitative models to reduce exposure to the largest carbon emitters and poor ESG performers, while increasing exposure to the lowest emitters and better ESG performers. You can read more information on these funds, and how RLAM uses its voting power to positively influence corporate behaviours on our behalf, in the RLAM stewardship report.

ESG equity tilts

We take an active approach to managing equity funds. Traditionally this has been achieved by blending a core of passive equity investments with additional, actively managed funds. To help progress towards our net zero climate commitments and more fully embed ESG considerations into our investment decision-making, we have worked with RLAM to reduce exposure to market-weight passive equity funds in favour of 'equity tilt' solutions, which were implemented in August 2021. This decision was driven by our 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 also consistent with our philosophy of engagement over divestment.

Our tilted funds increase exposure to certain companies and reduce exposure to others, relative to a traditional index. Rather than fully replicating an index, with the same underlying companies in the same proportions, our tilted funds adjust the proportion of each company to hold a larger proportion of companies with lower carbon emissions intensity.

The objective of our tilted funds is to deliver returns in line with the 'traditional benchmark' and improve the ESG profile of the fund.

To ensure the former performance objective continues to be met, active risk limits apply (1% tracking error limits against underlying benchmark). To avoid a conflict with the latter objective, the funds must achieve a minimum carbon emissions intensity reduction of 10%, relative to the underlying index.

In addition to reducing the carbon intensity of our investments, our 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 equity tilting and regularly review our methods of assessing impact to portfolio carbon emissions. Recognising the limitations of portfolio-level emissions data currently available, we continue to seek out best-in-class investee emissions figures and expert insight, updating impact assessments as data quality develops. As methodologies improve and data becomes more complete, our tilting may include forward-looking assessments of companies' climate credentials and other ESG-related factors.

Fixed income, including corporate bonds

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

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

In relation to government bonds, RLAM met with HM Treasury and the UK Debt Management Office in 2022 to discuss the Green Gilt Framework and the 2022 UK Green Financing Allocation Report. RLAM shared its expectations for the Impact Report due in 2023 and agreed to meet again after its publication.

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 RLAM's approach to effective engagement is a focus on those sectors and issuers that are most reliant on long-term debt financing, enhancing our ability to influence, or that are not equity listed, enhancing the scope for information discovery.

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 plays an important role in the global economic system. Commodity futures provide pricing stability and certainty of future demand for both producers and consumers across crucial energy, metals, and agricultural commodity markets.

While we cannot directly influence ESG matters through these instruments, we are able, through RLAM, to help influence the production and consumption of commodities, primarily through the shares we hold in the companies involved.

Property

Access to in-house property funds is a key and distinctive part of our multi-asset offerings. Royal London's property funds, managed by RLAM 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 RLAM, 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.

RLAM's Property team has recently carried out a thorough review which set long-term goals for achieving net zero in the property asset class, as well as factoring in how this objective translates to every new development and purchase. More information on how RLAM integrates stewardship in property funds is provided in the RLAM stewardship report.

Monitoring asset managers

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). We have direct input and oversight of asset manager stewardship activity undertaken across our segregated mandates.

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, or provide an explanation as to why they have not done so:

- UN Principles for Responsible Investment (UN PRI)
- FRC UK Stewardship Code 2020
- Net Zero Asset Managers (NZAM) initiative.

Furthermore, our customers' needs and investment preferences are considered in great detail as described in Principle 6 (Client and beneficiary needs), before we finalise and communicate our requirements to asset managers through our mandates.

Stewardship activity in emerging markets

Engaging with RLAM, we have limited our emerging market exposure to 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. There can be lower standards of behaviour and governance in some countries included in this index, so we believe a hard screening approach is more appropriate for our customers.

Voting

Voting is one of the valuable rights attached to holding shares in a company. As an asset owner, we delegate voting decisions to our asset managers, as part of the investment management process. Our Stewardship and Engagement Policy, which includes our Voting Policy, acts as the basis from which we monitor and influence our asset managers' decisions when voting on our behalf. As described under Principle 5 (Review and assurance), this policy sets out the stewardship and engagement principles we apply as an asset owner, including the actions we expect from our asset managers to address our priority engagement themes, and informs our related oversight processes.

Information on 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.

RLAM voting activity

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

More detail on RLAM's stewardship activity, undertaken on behalf of all its clients, is available in the RLAM stewardship report. RLAM's voting records can also be searched using the RLAM online tool.

Our asset manager oversight process, including the monitoring of voting activity, is detailed below under Principles 8 (Monitoring managers and service providers), 11 (Escalation) and 12 (Exercising rights and responsibilities).

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, we have engaged with our asset managers to ensure ESG considerations are integrated across our portfolio. For example, we have engaged with RLAM on its property portfolio to ensure climate considerations have been taken into account. This has resulted in emissions reduction targets being set for all their directly-owned properties. More information is provided under Principle 9 (Engagement).

Exclusions

In accordance with our Exclusions Policy, no fund within our segregated mandates will knowingly invest in corporate equity and/or debt 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, including RLAM, 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.

Seeding sustainable funds

RLAM has a long-term track record in sustainable investing. RLAM's award-winning 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. More information on RLAM's approach to sustainable investing can be found on the RLAM website.

RLMIS values this sustainable investing experience and works closely with RLAM on sustainability issues. RLAM in turn benefits from RLMIS support, including through the seeding of new funds.

In 2022 RLAM launched one RLMIS-seeded Dublin-domiciled fund, the Global Equity Transition Fund, to support RLAM's overseas distribution strategy. The fund aims to support companies that make a real contribution to a more sustainable world and demonstrates active stewardship.

RLMIS also provided seed funding to launch two Sterling sustainability-aligned funds:

- the Short Duration Sustainable Sterling Credit Fund
- the Sustainable Growth Fund.

RLMIS contributed a total of £225m in seeding these three funds.

Global Equity Transitions Fund

The Global Equity Transitions Fund aims to deliver capital growth by investing in companies that are actively transitioning away from ESG risk or towards positive ESG outcomes. The fund focuses on those companies that offer the greatest opportunity to improve their ESG credentials and responsibly transition their business practices. Active stewardship and engagement with companies is used to hold management accountable for their commitments.

Short Duration Sustainable Sterling Credit Fund

The Short Duration Sustainable Sterling Credit Fund integrates sustainable investing into a short duration fixed income solution. It seeks to take advantage of inefficiencies in credit analysis, while ensuring companies are chosen that align with the RLAM Ethical and Sustainable Investment Policy. The fund adheres to RLAM's Sustainable Investment policy and will include company bonds that make a positive contribution to society.

Sustainable Growth Fund

The Sustainable Growth Fund aims to deliver capital growth by investing in a diverse range of equity and fixed income assets that are deemed to make a positive contribution to society. The mix is around 72.5% equity and 27.5% fixed income.

Effectiveness review

In 2021, the focus of our activities was on establishing new policies and processes. In 2022, we focused on embedding these new policies and processes. As part of this we reviewed the effectiveness of our monitoring arrangements. More detail on our approach to, and outcomes from, asset manager oversight activity is provided under Principle 8 (Monitoring managers and service providers). This includes a summary of the latest triennial review of RLAM, carried out in 2022.

Principle 8 - Monitoring managers and service providers

Signatories monitor and hold to account managers and service providers

Asset Manager Oversight framework

The Asset Manager Oversight (AMO) framework incorporates three core pillars:

1. A performance oversight framework
2. A Responsible Investment and Climate Change (RICC) oversight framework
3. An operations oversight framework

Within the 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 managers are split across these levels as follows:

- All 29 asset managers with RLMIS customer investments are subject to our Tier 1 arrangements.
- Seven asset managers, who manage over £100m each on our behalf, are subject to additional Tier 2 'enhanced oversight' arrangements.
- RLAM, 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 RICC oversight framework focuses on policy, resources, ESG integration, climate and stewardship aspects including voting, engagement and exclusions. We continue to refine our frameworks to reflect good practices as industry data quality and policy expectations evolve.

We conduct biannual stewardship meetings with our 'key' asset managers, which are those in Tier 2 and Tier 3. At these meetings we:

- focus discussions on our oversight framework, including requirements and expectations around responsible investment and climate change, such as the monitoring of net zero progress
- inform them of any changes to our policies and procedures or stewardship requirements
- discuss the outcome of monitoring activities.

In 2022 our stewardship meetings highlighted that all key asset managers who manage RLMIS assets were signatories of the Net Zero Asset Managers initiative, UN PRI and FRC Stewardship Code.

We also reviewed the exclusion policies and voting guidelines of our key asset managers. We concluded from our review that all are aligned with our Investment Philosophy and Beliefs.

Tier 1

All Asset Managers

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

100% of AUM

Tier 2

Key Asset Managers

Asset managers who each manage over £100m on our behalf are subject to additional Tier 2 'enhanced oversight' arrangements.

99% of AUM

Tier 3

RLAM

RLAM is subject to Tier 3 'advance monitoring' arrangements in addition to Tier 1 and 2.

95% of AUM

Monitoring RLAM

RLAM manages over 95% of RLMIS assets. Although RLMIS and RLAM are both part of the Royal London Group, RLAM is managed separately and is overseen by its own Board. We subject RLAM's performance to our highest level of oversight, with more rigorous checks than our other external asset managers due to the high proportion of RLMIS assets managed by RLAM.

We implement two assessments to ensure RLAM's appropriateness to manage the majority of our assets. The first is a triennial review of RLAM's suitability, which includes a review of governance, investment philosophy, investment capabilities, investment performance and fees and other key items. The second is an ongoing responsible investment monitoring programme that we use to review our asset managers' responsible investment capabilities. This involves detailed questionnaires and increased ongoing monitoring of RLAM's responsible investment activity.

Triennial assessment of RLAM

Every three years, we undertake a more detailed review of RLAM, where we consolidate all our ongoing oversight, collate feedback from key stakeholders and perform a fees analysis.

In the latest triennial review, which covered the three years to the end of September 2022, we noted the following points regarding RLAM's responsible investment and sustainability approach:

- its Responsible Investment team had grown significantly
- RLAM empowers its fund managers to understand and integrate ESG risks and opportunities into their investment process to support and enhance risk-adjusted returns
- a suite of tools, including a proprietary ESG dashboard, is being used to support investment decisions. These tools continue to evolve over time with a view to further enhancing their use within the Responsible Investment team and individual portfolio managers.

The output of our regular oversight activity is reviewed on a quarterly basis by the Investment Committee, as are triennial and ad-hoc reviews into specific aspects of RLAM's capabilities.

Through this process, we concluded that RLAM's 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 Board 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. This questionnaire drives our baseline assessment by asking asset managers about exclusions, voting, engagement and climate change aspects. The asset managers are also asked about their process for integrating stewardship and responsible investment requirements, such as ESG integration, across their investment process. Furthermore, in order for new asset managers to be considered, we require them to be signatories to the UK 2020 Stewardship Code, the UN PRI and the Net Zero Asset Managers initiative.

We seek to validate the information provided to us by cross-checking against MSCI data on ESG fund manager ratings and other externally-available information, including ShareAction reports, UN PRI assessments, and UK Stewardship Code disclosures.

No new asset managers were appointed in 2022.

2022 embedding

The RICC oversight framework was established in 2021 within the AMO framework. It focuses on policy, resources, voting, exclusions, engagement and climate considerations. During its embedding in 2022 we noted areas for improvement.

For example, we improved our baseline assessment by working closely with AssetQ and issuing an enhanced question set to all our asset managers. This now provides us with additional information across exclusions, voting and engagement, and allows us to undertake consistent assessments.

We also reviewed our meeting effectiveness, including the format of our stewardship meetings with our key asset managers. As a result of this review, our stewardship meetings are now better aligned with our oversight activities.

In 2022 we focused on embedding the key performance indicators (KPIs) and metrics established in 2021 to oversee asset managers. In line with this approach, an AMO questionnaire is issued to all our asset managers, with their responses assessed against a set of KPIs weighted under three categories: Policy & Resource (20%), ESG Integration (40%) and Engagement and Voting (40%). Each asset manager is then assessed within each of these categories, generating an overall score. This score informs our asset manager monitoring activity and oversight decisions, based on a 'Red/Amber/Green' rating system to reflect how well our expectations are being met.

Monitoring asset managers in 2022

Our monitoring identified that our key asset managers mainly align to our exclusions and voting policies and we will continue to develop data-led insight to highlight any outliers. It has been more challenging to measure asset managers' performance on engagement, which is currently undertaken qualitatively, through stewardship meetings.

Our key asset managers have a strong engagement ethos and focus on making real-world change through their engagement activities. They align with Royal London's philosophy of engagement over divestment. We will focus on the development of our engagement oversight as we start to see consistent data, reporting and metrics across the industry.

Our scope of oversight is continually reviewed against industry standards and regulatory changes. For example, we are currently reviewing how aspects such as biodiversity and nature metrics are considered within our framework.

Following a vote comparison check, we noted some differences in the way four of our key asset managers approached resolutions. We compared each asset manager's voting policy against RLMIS's voting guidelines to confirm that voting policies were broadly in line with our voting approach. As part of this work, we used the stewardship meetings to request additional information to better understand their approach. One of the gaps identified, for one asset manager, was a lack of detail on social inclusion, which was later provided to us.

In 2023 our priorities will be on enhancing our oversight model with a particular focus on establishing stewardship meetings with our 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.

Overall, our key asset managers were rated Green throughout 2022. In instances where our analysis triggered further review, management actions were taken and there were no significant areas of concern. In one instance we carried out additional work to understand the implications of a greenwashing case that related to one of our key asset managers. Following this work, we were satisfied that the funds invested by RLMIS on behalf of our customers were not impacted.

Fund-level ESG assessment

We review the ESG characteristics of our investments at a fund level, using MSCI ESG Ratings data to assess whether funds are deemed to be:

- 'Leaders': the fund has holdings in companies leading their respective industries in managing the most significant ESG risks and opportunities
- 'Average': the fund has holdings in companies with mixed or unexceptional track records in managing the most significant ESG risks and opportunities relative to industry peers
- 'Laggards': the fund has holdings in companies that lag behind industry peers, indicating a failure to manage significant ESG risks.

Throughout 2022 we monitored our funds using MSCI ESG Ratings data, with a focus on funds which are deemed to be 'laggards'. Our analysis determined that, of the covered funds, none were considered to be laggards.

Monitoring exclusions

We exclude certain sectors from our investment universe, as explained in the below extract taken from our Exclusions Policy:

"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 we cannot compel the managers of our pooled funds, including RLAM, to conform to the RLMIS Exclusions Policy, we do require confirmation that they comply with our Exclusions Policy or an explanation of which aspects of our policy cannot be met.

We require RLAM to attest that it has applied our Exclusions Policy to the segregated mandates it manages on our behalf.

During 2022 we embedded a reporting process for controversial weapons breaches. Under this process, RLAM will notify us if a fund held within one of our segregated mandates purchases a company deemed to fall under the category of 'controversial weapons', which is prohibited under our Exclusions Policy. There were no breaches reported in 2022.

Separately, we examined if any open-ended fund was involved in controversial weapon exposure, by using the MSCI ESG methodology. No issues were identified.

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).

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.

During 2022 we monitored the services provided by MSCI, AssetQ and Moody's Analytics in line with these procedures. As a result of this monitoring we are taking the following steps:

- We are setting up more regular meetings with MSCI to discuss data quality, sample checks, data sourcing and transparency of sourcing, coverage, data methodology and other MSCI products such as ESG Ratings. As new data service providers enter the market, we also research and trial different data offerings of different providers to assess suitability on an annual basis. In 2022 our research and trials concluded that the offering of our current provider continues to be among the best in the market for our needs.
- We asked AssetQ to incorporate more questions on sustainability to enable us to improve our baseline assessments. As a result, AssetQ enhanced its standard questionnaire, which covers exclusions, voting and engagement and is distributed to a large population of asset managers.
- We hold quarterly calls with Moody's Analytics to review the service received, and discuss model updates and other changes. In 2022 we started specifying bespoke economic scenarios to support our analyses.

Principle 9 - Engagement

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

Our approach to engagement

Engagement is a fundamental part of our approach to stewardship. To support our aims of enhancing returns for our customers, while delivering benefits for society as a whole, we expect our asset managers to engage with investee companies on a broad range of issues. As an asset owner, we also actively engage with policymakers, regulators and other stakeholders.

Our Stewardship and Engagement policy, as described under Principle 5 (Review and assurance), sets out the stewardship and engagement principles we apply as an asset owner. This describes the actions we expect from asset managers to address our priority engagement themes and informs how we oversee asset managers to ensure our expectations are met.

We focus our engagement with investee companies through RLAM in particular, given it is part of the Royal London Group and manages over 95% of our customers' assets on our behalf. Our approach to engagement will differ depending on the situation, as described in the RLAM stewardship report.

Although we delegate investee-level engagement to asset managers, within our segregated mandates we reserve the right to instruct engagement activity more directly, in line with three key principles:

- **Driving long-term outcomes for customers** – As an asset owner that regularly engages with our customers, we are closer to their long-term needs and interests than our asset managers. It is important that we have a voice in the stewardship and governance matters we deem most impactful on customer outcomes.
- **A stronger voice** – While we seek to avoid duplication of engagement activity with our asset managers, we recognise that adding our voice can sometimes help us make a greater impact.
- **Focus on materiality** – We focus our asset owner engagement activity on the matters of most relevance to our customers.

In line with these key principles we have informed our asset managers of our engagement priorities, reserving the right to vote within our segregated mandates and the right to decide on the exclusions that apply to those mandates, as described in Principle 8 (Monitoring managers and service providers).

Having considered our engagement priorities alongside those of their other clients, asset managers will use a range of tools to identify specific companies for targeted engagement. For example, in addition to client requests RLAM targets investee engagement activity with reference to:

- ESG research
- portfolio reviews
- relevant regulation.

While these factors help RLAM identify engagement topics, companies are then chosen based on:

- whether there is a material financial or ESG impact
- whether there is a social or environmental Principal Adverse Impact
- whether RLAM has a significant holding
- whether there is associated reputational risk
- whether the engagement fits with RLAM's engagement themes.

As RLMIS and RLAM are both part of the Royal London Group, we have a common Purpose. This is reflected in our collaboration and the engagement activities we conduct through RLAM on behalf of RLMIS customers.

RLAM's engagement can take two forms: engagement for information, or engagement for change. More information on RLAM's approach to engagement is provided in the RLAM stewardship report.

Our STIP scheme is based on a scorecard of financial and non-financial measures as reported in our Annual Report and Accounts. The scorecard includes measures against the progress of our sustainability and stewardship ambitions, including company engagement. We continue to explore how to best measure engagement outcomes and successes.

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 (AMO) framework. We recognise good practice in investee engagement is still developing in certain asset classes, primarily outside listed equity and corporate debt. However, we are exploring how we can support our asset managers in expanding the scope and effectiveness of engagement beyond these asset classes as views on good practice continue to evolve.

Case Study - Go-Ahead Group

Following reports on the mishandling of government subsidies, audit failings and lost AGM votes, RLAM engaged with Go-Ahead Group, both as bondholder and as equity holder. RLAM discussed the factors that led to an accrual of excess subsidies from the Department for Transport (DfT), and the events that delayed the publication of Go-Ahead's annual report and accounts. RLAM reflected its concerns on the role of the auditor at the AGM in March, and voted against the auditors and the annual report and accounts. The company is undergoing structural changes to mitigate risk, including a refresh of its board, and implementing a new operating model to enhance oversight. In RLAM's view, Go-Ahead is showing commitment to improving corporate governance. New management emphasised that it is now working constructively with the DfT and that they have a positive and transparent relationship, a notion that has been recently validated by the government's extension of Go-Ahead's operation of the Southern and Great Northern rail franchises through their Govia joint venture. As a result, RLAM continues to hold bonds in Go-Ahead Group. More information on RLAM's engagement with Go-Ahead is provided in the RLAM stewardship report.

Voting

Our Voting Principles set out the expectations we place on the asset managers to look after our assets, as well as voting policy guidelines to provide our view on what good corporate governance looks like within the companies we invest in. We require all asset managers to comply with the principles or explain why they cannot do so. Our Voting Principles are available on our website.

Engagement priorities

When deciding which themes to focus on, we consider alignment with our Purpose as well as the UN Sustainable Development Goals and customer research. We also leverage RLAM's responsible investment research and experience and consider the engagement themes RLAM selects under our shared Purpose. Combining these inputs with our own research, we have established the following priority engagement themes:

Theme 1: Climate change

The climate crisis 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 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 transition risk

Companies may face financial and non-financial losses due to climate-related policy and regulation. 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.

Theme 2: Inclusion

Social inclusion is concerned with improving the terms on which individuals and groups take part in society. At Royal London we believe companies who 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 been advocating, through RLAM, 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 seeks to avoid exacerbating existing injustices or creating new ones.

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

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 AMO 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 2022 we focused on communicating our engagement themes to all our asset managers during our stewardship meetings, talking to them about our priorities and asking them 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.

RLAM remains our main mechanism for engaging with investee companies, given the Royal London Group's investment in RLAM's responsible investment and ESG research capabilities.

Monitoring RLAM's engagement

From 2022 the biannual meetings we hold with RLAM include a review to discuss progress against RLMIS engagement themes.

During 2022 RLAM engaged with 393 investee companies on 604 separate occasions. 22 ESG topics were addressed and 45% of engagement related to climate. RLAM also:

- engaged with 175 investee companies on climate – and of these 175 companies, 40 representing 51% of financed emissions were part of RLAM's net zero engagement programme
- reached out to 31 companies specifically in relation to the just transition – expanding our engagement in this area to include banks and social housing, in addition to our focus on utilities
- sent 133 voting engagement letters advising investees of our voting rationale in the instances where we abstained or voted against a resolution during the year.

As a result of this engagement, RLAM continues to become a trusted voice on corporate governance as well as climate matters. This gives us, through RLAM, great access to investee companies' management and, in turn, increases our ability to gain valuable insights into how companies manage key ESG issues.

Our voting engagement letters represent an effective tool for inviting further dialogue with companies, as noted from the responses we received in 2022 from companies, particularly in relation to remuneration consultations.

More information on the engagement RLAM has carried out in 2022 on our behalf, and the outcome of that engagement, is described in the RLAM stewardship report.

From 2023, Royal London STIP measures will include metrics to measure progress against RLAM's engagement plan.

Engagement focused on a just transition

Focusing purely on coal demand in Asia where it is most significant and growing, RLAM met twice in 2022 with CLP Holdings, an energy utility company based in Hong Kong. RLAM was pleased to hear that the company did not see any significant barriers to decarbonisation in Hong Kong, India, China or Australia. The company does not believe divestment is the correct approach to delivering its climate targets. Instead, it considers a just transition to be a priority.

RLAM later met CLP's Head of Sustainability and asked the company to provide further details on its coal phaseout and its just transition plans. CLP is exploring options to replace coal generation. Enabling the use of additional types of renewables is part of this, as well as capacity mechanisms such as battery storage and pumped hydro technologies.

RLAM engagement on our behalf: Energy utilities – from policy to action

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

RLAM was one of the first investors to start working on the just transition in the energy utilities sector. In 2022, RLAM's work was recognised in good practice guidance published for financial institutions. In addition, US and European investors have used RLAM's 'expectations' on a just transition for energy utilities and adapted them for their markets.

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

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

Following pressure from RLAM and collaborative partners in the US, we saw National Grid publish detail of its approach to achieving a just transition. This was built on stakeholder feedback and included perspectives from customers in the Northeastern US, with a particular focus on environmental justice and racism.

RLAM engagement on our behalf: Social housing – focusing on the most vulnerable

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

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

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

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

While challenges are shaped by housing associations' individual characteristics such as housing type, tenant type, size and financial position, RLAM has identified learning points and areas of good practice. You can read about RLAM's findings, recommendations and advocacy on RLAM's website.

RLAM engagement on our behalf: Banks – following the money

Barclays, HSBC, Lloyds Banking Group, NatWest

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

At the AGMs of Barclays, Lloyds Banking Group, NatWest and HSBC, RLAM and the Friends Provident Foundation (FPF) asked the banks to consider integrating a just transition throughout their climate transition plans. RLAM met all four banks in 2022, rearticulating the business case and providing suggestions on how integrating a just transition into their plans would look.

All banks appeared enthusiastic to integrate a just transition into their work and reporting, yet they remain uncertain on how this will look in practice. NatWest considers its purpose to be closely aligned with social impact and this guides how the business implements climate commitments. Barclays focused on its role in community investments and how this can be linked to urban regeneration. Lloyds Banking Group has examples of supporting small and medium-sized enterprises with financing climate solutions. Around COP27, HSBC announced its support of the Just Transition Energy Partnership for Indonesia and Vietnam and, shortly after, included a just transition as an objective of its energy policy, being the first bank to do so.

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.

As well as engaging through our asset managers, we collaborate with other institutional investors, both as an asset owner and through RLAM. More generally, we expect all our asset managers to collaborate with other institutional investors where appropriate to progress our priority engagement themes.

We believe that by actively collaborating with industry bodies and other investors on key issues and 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 companies, sectors and policymakers across the globe.

Over 2022 we led and participated in a number of industry forums and initiatives focused on reducing and mitigating the effects of the climate crisis, 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 RLAM

Most of our company engagement meetings via RLAM 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 RLAM to evaluate the benefits of collaborative engagement on a case-by-case basis.

More information on the collaborative engagement RLAM has carried out in 2022 on our behalf, and the outcome of that engagement, is described in the RLAM stewardship report.

We work collaboratively with RLAM on issues that align to our investment beliefs. When conducting stewardship activities, RLAM complies with Royal London Group policies.

Net Zero Asset Managers (NZAM) initiative

RLAM, on behalf of the Royal London Group, has committed around 71% of our total assets under management to be managed in line with net zero objectives. Our primary objective is to evaluate and influence these companies to adopt emissions reduction targets and climate transition plans that are reinforced by credible science-based methodologies. RLAM has developed 12 indicators to help assess companies' climate transition plans and, through this approach, we expect to influence real-economy decarbonisation.

Climate Action 100+

In 2022 RLAM became co-lead, with Climate Action 100+, on engagement with both EDF and E.ON.

After the announcement in 2021 that EDF would be nationalised, the company stated that neither the nationalisation process nor the energy crisis would impact the company's climate plans, and that they would still be accountable to the French Parliament on the delivery of their targets.

EDF's new CEO, appointed in 2022, is supportive of the company's climate targets, with an apparent new focus on self-generation and energy decentralisation. The company is working to bring back reactors to recover energy production in France, reducing the need for imports of coal and gas. RLAM and EDF discussed in detail EDF's exposure to physical climate risk, providing RLAM with confidence on its adaptation plans. We continue to engage with EDF on these climate-related matters through 2023.

In 2022, RLAM also met with E.ON to seek reaffirmation of its 1.5°C targets, its plans for capital expenditure allocation, and plans to ensure a just transition. RLAM also asked E.ON to lobby more proactively to tackle barriers to its plans in the context of the energy policy environment in Europe. E.ON was receptive to the request of integrating climate considerations into its annual report and accounts. RLAM provided E.ON with a detailed slide pack showcasing examples of companies in the sector that provide quality disclosures on capital alignment. RLAM obtained reassurances that the energy crisis and energy security concerns had not reduced the company's climate ambitions.

We will continue to engage with E.ON on this.

Principle 11 - Escalation

Signatories, where necessary, escalate stewardship activities to influence users

Escalation mechanisms within the Group

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.

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.

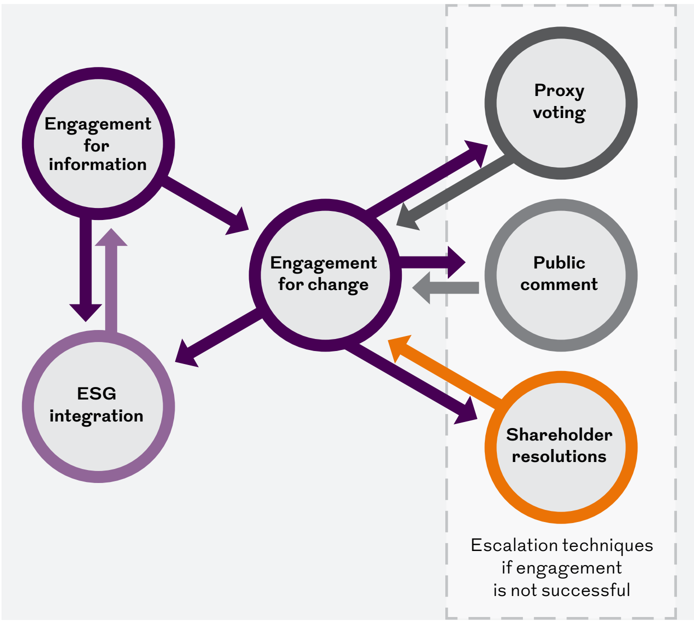
RLAM escalation

Investee companies that do not respond to engagement requests on ESG issues may pose a significant risk to our customers' investments. We engage with RLAM to identify these risks. These are escalated as necessary to the relevant Head of Desk, RLAM's Chief Investment Officer and RLAM's Head of Responsible Investment, who discuss the most appropriate action to take.

Actions agreed as a result of escalation are reported to the Royal London Board Investment Committee. Potential further RLMIS actions include:

- escalating with the investee company chair or other senior executives
- shareholder voting to put pressure on management
- issuing warrants, filing or co-filing shareholder resolutions, or issuing public comment
- divestment where engagement and other escalation options are not successful.

All engagement activities are used to ensure we are acting in the best interest of our customers. The chart below illustrates RLAM's escalation process relating to engagement and ESG activity:



Voting

Voting is one way in which RLMIS can escalate matters of concern as an asset owner on behalf of our customers.

During 2022 we communicated our Voting Policy to our key asset managers. We also embedded a new Reserved Voting process for escalating issues relating to how asset managers vote. This involves escalation to our Reserved Voting Forum.

The Reserved Voting process complements our voting policy guidelines, which are described in more detail under Principle 12 (Exercising rights and responsibilities).

Reserved Voting Forum

Our Reserved Voting Forum comprises executive and non-executive directors of RLMIS, including the Chair of the Board Investment Committee and the Chair of RLMIS. It supports the Group Chief Financial Officer in managing investments held by RLMIS, in particular through the review of potentially high-risk or sensitive matters, for example 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 company strategy.

In 2022, RLMIS carefully analysed over 60 resolutions which were deemed potentially high risk or sensitive, including 15 related to climate change, one of our priority engagement themes. Five resolutions were escalated to our Reserved Voting Forum for consideration.

More information on voting activity, including examples of escalation, is provided under Principle 12 (Exercising rights and responsibilities).

In 2023 we will continue to review and refine the referral and decision-making process.

ESG watchlist

Our ESG watchlist is informed by the assessment of, and meetings held with, companies that do not respond to engagement requests on sustainability issues. This helps focus our voting and engagement activity.

Our model is still evolving but as of 2022, it:

- identifies investee companies with the poorest ESG ratings (based on independent ESG Ratings data provided by MSCI)
- considers the top 10 contributors to our portfolio's carbon emissions intensity
- considers our top 20 equity holdings by assets under management (AUM).

This leads to a list of companies we choose to focus on, including when reviewing potentially high risk or sensitive votes across our segregated mandates. The watchlist is updated on a quarterly basis.

RLAM climate voting

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

Climate issues are gaining much more prominence on company ballots. There is a growing number of shareholder proposals on climate, and RLAM is increasingly seeing management teams filing proposals asking for approval for climate transition plans. Plans became mandatory for certain companies and investors in the UK in 2022 and we commend those who are voluntarily putting these to an early shareholder vote.

In response to the increased focus on climate and the greater complexity of climate-related proposals, RLAM refined its approach. 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.

RLAM assesses companies against 12 indicators developed by its governance and climate experts. For each climate resolution RLAM follows a decision tree built around these indicators. This allows RLAM to assess each company in a detailed, fair and consistent way. RLAM then applies a final judgement based on discussions with its investment teams, climate experts and the company.

Some of the issues RLAM considers on our behalf are:

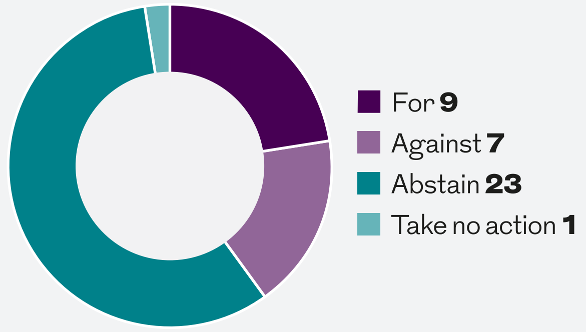
- targets aligned with the Paris Agreement;
- the approach to a just transition; and
- the ability to demonstrate climate action now.

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.

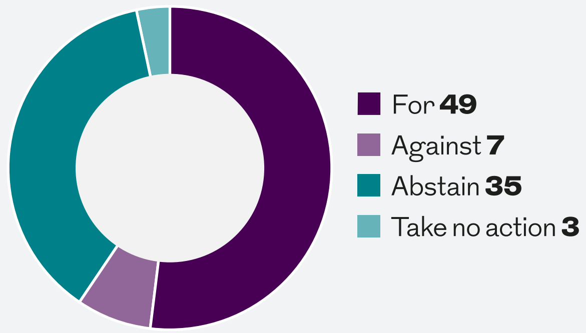
This approach can, and has, led to further engagement with companies on areas where companies are making progress, but where improvements are still required. Through RLAM we often write to companies in our actively managed funds when we abstain, to explain the reason for our vote. Often companies are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

A breakdown of how RLAM voted on climate issues in 2022 is illustrated below.

Management climate proposals - 40 votes



Shareholder climate proposals - 94 votes



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 holdings investments in a given company.

The Go-Ahead case study that we described in Principle 9 (Engagement) provides an example of how we exercised our rights as bondholders as well as equity holders. 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 preemptive 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.

In relation to Property, we also exercise our rights in the contracts we set with our tenants through RLAM. You can read more about RLAM's work in this area in the RLAM Responsible property investment strategy report.

Voting Policy

RLMIS's Voting Policy sets out our expectations for asset managers and the companies we are invested in. This 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. RLAM's voting policy is closely aligned to the RLMIS voting policy guidelines. Further information on this is available in the RLAM stewardship report.

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.

Our 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, and report and account disclosures
- environmental risk – including climate change, 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 2022 we communicated our Voting Policy to our key 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 2022

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 all of our asset managers to assess how they align to our voting principles. We monitor and analyse asset managers' voting patterns, engaging with asset managers who consistently vote out of line with our voting principles and taking further action if needed.

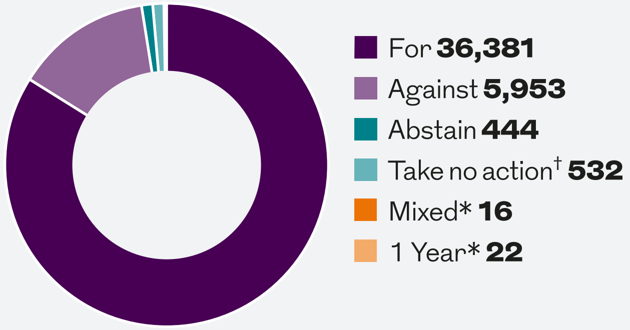
For segregated mandates managed by RLAM, our Reserved Voting process enables us to directly vote on resolutions. This process involves us:

- identifying and analysing potentially high-risk or sensitive voting cases arising in respect of companies on our ESG watchlist, RLAM's own watchlists and other market sources
- reviewing these voting cases, taking into consideration a range of aspects such as the extent of RLMIS' holdings
- escalating a matter, where we consider the voting resolution to be potentially controversial, to the Group CFO for consideration – which may also involve arranging a Reserved Voting Forum meeting.

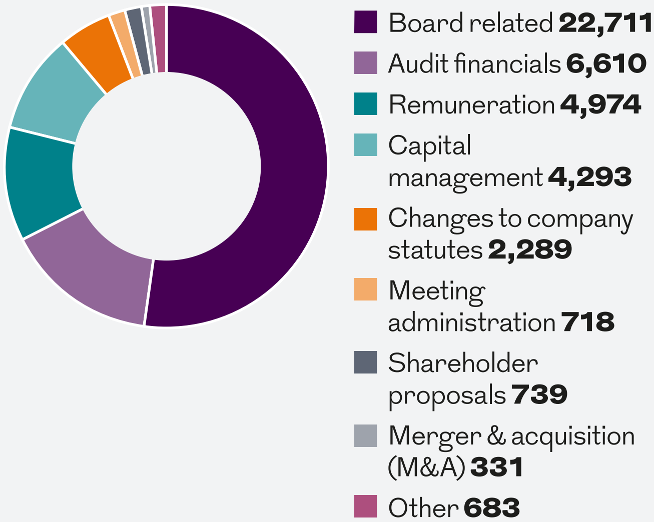
More information on the Reserved Voting Forum is provided under Principle 11 (Escalation).

The following provides a summary of RLAM's 2022 voting activity. As described earlier in the report, RLAM manages over 95% of RLMIS customer assets and as such completes all eligible voting on our behalf. A description of how RLMIS oversees stewardship activity undertaken on our behalf is provided under Principles 8 (Monitoring managers and service providers) and 11 (Escalation). Information on RLAM's climate voting activity is also provided under Principle 11. More detail on RLAM's voting activity is available in the RLAM stewardship report.

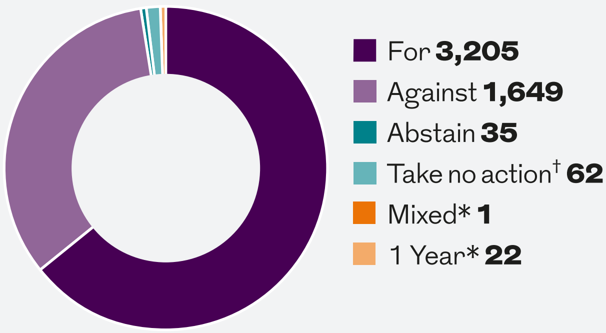
Proportion of voting outcome for all resolutions in 2022



Votes by category



Remuneration votes



† Take no action – RLAM endeavours to vote at all meetings other than in markets where voting would result in shareblocking
* Mixed votes included one meeting where some funds were voted via physical proxy card instead of the voting platform, and one meeting where some RLAM client accounts were voted differently as per client's instructions. 1 Year votes were issued on proposals asking for preferred frequency of shareholder votes on executive compensation in the US.

Below are some examples of how RLAM voted on our behalf in line with our voting principles in 2022:

SSE plc - Net zero transition report - FOR

SSE provided its Net Zero Transition Report to shareholders including RLAM, to provide an update on activities against SSE's previously agreed Transition Plan. SSE passed RLAM's assessment for a credible strategy and is viewed as a clear industry leader by RLAM, who therefore voted in favour of the resolution. SSE's ambitious targets are backed with clear and detailed disclosure, along with a strong track record of delivering against these. While RLAM is still engaging to gain further clarification on the role of offsets in the plan, RLAM believes the plan deserved support. The plan was approved and RLAM continues to engage with SSE.

Shell plc - Energy transition strategy - ABSTAIN

This was the second year that Shell requested shareholders to vote on its energy transition strategy. Considerable progress has been made since the first vote in 2021. However, RLAM could not fully support the 2022 proposal because it did not think the Scope 3 emissions and capital expenditure targets were aligned to the Paris Agreement. RLAM's decision to abstain was made in this context. It believes the company is on the right path and has shown a willingness to make continual improvements, but there is further work to be done. The Shell strategy was approved and RLAM is planning further engagement efforts throughout 2023.

BP plc - Reporting and reducing GHG emissions - AGAINST

A shareholder proposal was put to BP requesting that the company publish a report that details its emission reduction targets aligned with the Paris Agreement. RLAM agreed with the argument put forward in the proposal, but adoption of this would have forced BP to reconsider the carbon reduction plan it currently has in place. RLAM saw greater value in engaging with BP to improve its current plan, and therefore voted against the shareholder proposal. The proposal did not succeed and RLAM's engagement efforts continued during 2022 and will continue throughout 2023.

Looking ahead

Continuing to use our mutuality for good

Royal London has championed sustainability and responsible investment for over three decades. As the UK's largest life, pensions and investment mutual, we use our position to influence change by holding to account the companies in which we invest. This is a key part of being both an active manager and a good steward of our customers' assets.

However, we cannot act alone. To meet the challenges ahead, governments and policymakers also need to act. Understandably, it is difficult to balance the scale and pace of the changes required with shorter-term priorities. Inflation in the UK is likely to take some time to reduce to sustainable levels, impacting people's standards of living and financial resilience, as well as governments' ability to make the necessary changes to achieve the goals of the Paris Agreement.

Consequently, we must continue to encourage policymakers to help support the transition to a low-carbon economy in a way that considers the impact on society.

Our policymaker engagement priorities will complement our ongoing stewardship activities. By listening to what our customers think is important, we will focus on the areas that are most relevant to their needs and aspirations, and where we can achieve the biggest impact.

Engagement can take a long time to generate positive changes, so we need to be able to measure and report on our progress clearly and transparently. We are currently developing our Climate Transition Plan to cover in detail how we intend to achieve our climate commitments, with associated timeframes. In 2023 we will also continue to review mechanisms for incorporating appropriate targets in the business scorecards that underpin our short and long-term incentive schemes.

As an asset owner, we are responsible for engaging with our asset managers to ensure our Purpose is reflected in their decision-making. We will use our influence by ensuring, through our policies, that our stewardship and engagement principles align with those of Royal London Asset Management, as well as our other key asset managers. We will also carry out a strategic review of our investment solutions with the aim of significantly amplifying our focus on responsible investment and delivering positive customer outcomes. Alongside this, we will continue to engage with industry bodies to reduce the risk of unintentional greenwashing across financial services, by working with organisations such as the Association of British Insurers and the Financial Conduct Authority.

We know that for us as a business, and more broadly across government, industry and society, there is still a great deal of work to do. As we increase our stewardship capability across Royal London and refine our Asset Manager Oversight framework, we will be better placed to influence corporate behaviour and deliver the impact needed to support the fair move to a sustainable world.

Royal London
royallondon.com

The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 117672. It provides life assurance and pensions. Registered in England and Wales, company number 99064. Registered office: 80 Fenchurch Street, London, EC3M 4BY. Royal London Marketing Limited is authorised and regulated by the Financial Conduct Authority and introduces Royal London's customers to other insurance companies. The firm is on the Financial Services Register, registration number 302391. Registered in England and Wales company number 4414137. Registered office: 80 Fenchurch Street, London, EC3M 4BY.

October 2023

NA NA PD 0005