



# Our responsible investment **approach**

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## Purpose of this policy

This policy sets out Royal London's approach to responsible investment, in line with the UN Principles for Responsible Investment (PRI), and the UK Stewardship Code (set by the Financial Reporting Council).

When it comes to Responsible Investment (RI), our position is as follows:

We're committed to being a responsible investor.

This means we aim to generate good investment returns whilst also making a positive contribution to our society and environment. Good governance has always been important to us, but going forward, we'll be more proactive in asking the asset managers we work with to include financially material environmental, social and governance (ESG) risks and opportunities when they make investment decisions.

To fulfill our stewardship responsibilities, we require our asset managers to comply with our principles and we monitor closely the stewardship activities of asset managers, including exercising voting rights, and engagement with the companies they invest in on our behalf.

We believe all of this can help to manage risk, support informed investment decisions, and help to generate better long-term results for our customers.

Our commitment to responsible investment also supports our Social Impact Strategy. We're already working hard to tackle three key long-term challenges that are impacting customers today:

- **Improving financial resilience** - we want to help people build a financial safety net to avoid hardship that could follow things like illness, bereavement or job loss.
- **Saving for the long-term** - we aim to increase the number of people who are saving enough for a long, fulfilling future.
- **Strengthening responsible business** - we're committed to being socially responsible, and using the power of our investments and activities to have a positive impact.



## Our responsible investment beliefs

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

This means we aim to generate good returns whilst also making a positive contribution to our society and environment.

Issues such as climate change, cyber security and corporate governance are increasingly recognised as factors that can impact long term investment returns.

Customers are also being influenced by growing concern for the planet, and the impact that business activities are having on the environment. With this in mind, we're making a stronger commitment to including these factors in our investment decisions.

To help us achieve this aim, we have three key investment beliefs in place:

- We believe that adopting a responsible investment approach is in line with our legal duty and responsibility as a mutual insurer.
- We believe that considering financially material Environmental, Social and Governance (ESG) issues in the investment process can help us to make better decisions, and better manage risk for our customers and members.
- We believe we should act as a responsible steward of the assets we invest in on behalf of our customers.

## Our responsible investment commitments

We primarily invest in listed equity, fixed income, property and private equity, with less material exposures to other asset classes. The majority of our investments are managed by Royal London Asset Management (RLAM), with a smaller proportion managed by a selection of external asset managers.

### Our expectations for all asset managers

We expect all our asset managers to implement this policy across all of our assets, and to integrate ESG analysis into their investment processes to support and enhance risk-adjusted returns.

### Implementation in investment processes

By the end of 2020, we'll include an ESG assessment in our due diligence selection process for all our asset managers which includes the following :



#### Responsible selection

Before we appoint an asset manager, we'll carry out a responsible investment assessment at the screening stage to make sure they meet the best practice standards we have in place.



#### Selective appointment

We'll only choose to work with asset managers whose practices align with our RI policy.



#### Monitoring and reporting

We'll ask our asset managers to provide regular updates and reports on their progress. If we find they're not reaching the standards we expect, we may decide to stop working with them.



#### Commitment to the UK Stewardship Code and the UN Principles for Responsible Investment (PRI)

We expect all our UK asset managers to be signatories to the Stewardship Code, and all asset managers to be signatories to the UN PRI.

## How we practice responsible investment

We're committed to putting these three pillars of responsible investment in place:



### Stewardship and voting

We ask our asset managers to vote our shares on company issues in order to help promote good governance.



### Advocacy and engagement

We encourage our asset managers to engage in the companies they invest in with regular letters, calls, and meetings to help bring about higher standards and better governance.



### ESG integration

We ask all our asset managers to consider ESG risk and opportunities when investing on our behalf.



## Stewardship and voting

### Stewardship

We have recently become signatories of the UN Principles for Responsible Investment (UN PRI), and by the end of 2020, we also aim to sign up to the UK Stewardship Code set out by the Financial Reporting Council. For existing asset managers who are not signatories of the UN PRI, we expect them to sign by the end of 2020 as well.

Any existing asset managers who are not signatories of the UN PRI will be expected to have a plan to become full signatories in the future, and as part of their regular investment updates, all asset managers will report to us on their plan's progress.

### Voting

We have a duty to look after our customers' money responsibly, which is why we ask and expect our asset managers to fulfil their voting responsibilities.

We ask all of our asset managers to vote our shares at AGMs and, where required, EGMs in order to help promote good governance in

the companies they invest in on our behalf. We expect our asset managers to vote all our actively and passively held equity holdings and to disclose their voting policy and record so that we can monitor its alignment with our RI policy.



## Advocacy and engagement

### Advocacy

We support industry and regulatory initiatives to make financial markets, pensions and the insurance industry more resilient to long-term ESG risks, such as climate change. We'll respond to industry findings on responsible investment, and will at

times undertake advocacy to support market reform, develop guidance and standards supporting the development of a long-term sustainable economy and promoting the interests of our customers.

### Engagement

We expect our asset managers to engage with the companies they invest in on our behalf. Engagement should seek to improve material ESG issues, and support the overall investment approach to manage risk and improve returns for our customers.



## ESG integration

Asset managers following active investment strategies on our behalf are required to consider financially material ESG factors, and their effect on risk-adjusted returns in their decisions.

all reasonable efforts to exercise voting rights on all eligible investments, and making sure these votes are cast in line with our responsible investment policy.

We'll encourage asset managers to implement a responsible investment approach across our passive investment portfolios. This would include taking

## Our approach to climate change

We're a long-term investor, and recognise the systemic nature of climate change and the complex challenges it brings. Transitional and physical risks associated with climate change have the potential

to impact investments in particular. As such, we've developed a climate change framework that outlines our position on climate change, and our processes to manage related risks and opportunities.



## Exclusions and divestments

Choosing not to invest in a particular company or sector is known as an exclusion.

Any proposals for exclusions will be reviewed by our Board and assessed based on our responsibilities and risks to our business and reputation.

We expect all our asset managers to apply all agreed exclusions on our behalf. We'll monitor them to make sure this is happening, and if it's not, we'll ask them to explain why. If their exclusion policies are not in line with ours, we'll make that clear to customers while also asking the asset manager to revise their strategy. If necessary, we may decide to stop working with them altogether.

Divestment is the opposite of investment, meaning an asset manager will remove exposure to that holding. If an existing investment goes against our responsible investment and/or climate change policies and we've exhausted all our engagement and advocacy, we may decide to stop investing with them altogether. We expect our asset managers to have a divestment criteria and process in place, and be able to evidence this if asked.





## Reporting and governance

We take our commitments to responsible investing seriously, and so we'll review this policy on a yearly basis to make sure we're always in line with industry standards. As the Financial Reporting Council has recently consulted on a new Stewardship Code, we'll make sure this policy is kept up to date with any changes that are introduced.

We'll not only keep this policy up to date, but we'll also make sure that our

Board, customers and members are kept informed with regular updates as well. We're committed to being transparent and open about our approach to responsible investment, so we'll include updates on our activities in our annual report, and where possible, we'll disclose the voting records of our asset managers on our website.

### Conflicts of interest

Responsible investment supports our vision to be the most trusted and recommended financial services provider.

It aligns with our values as a mutual, ties into our social impact themes, and commits us to the highest degree of professionalism, integrity and governance in doing business and ultimately treating our customers in a fair and consistent manner.

Adopting a fair, consistent and ongoing approach to managing conflicts of interest is just one of the ways we aim to achieve this and we take a proactive approach to this holding all our employees to account. The Board is accountable for the management of all conflicts of interest within the Royal London Group and responsible for dealing with these in a fair way.

## Useful links and more information

- [Climate change commitments](#)
- [RLAM Stewardship Report](#)
- [RLAM's voting record](#)
- [UN PRI](#)
- [UK Stewardship Code \(FRC\)](#)



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