



ASSET MANAGEMENT



**RESPONSIBLE INVESTMENT
POLICY
2017**



Royal London Asset Management prides itself in being a good steward of our clients' assets. We routinely meet with management and company directors to question them on company strategy, risk management, governance and sustainability matters. We advocate for reform in markets and regulation consistent with our clients' interests in a sustainable economy. We also offer clients Sustainable and Ethical Investment products that screen out certain investments and enable them to direct their money to companies helping address societal challenges. [The basis for these aims is set out here](#). This policy aims to give clients, employees, investee companies and other stakeholders more detail on what responsible investment means in practice at RLAM. Because our approach to responsible investment is evolving, this policy is subject to change and will be reviewed annually.

How Responsible Investment is governed at RLAM

- 3 full-time analysts, with experience of financial analysis, ESG, governance and a combination thereof. Biographies of team members may be found [here](#).
- Responsible investment specialists work across RLAM on screened and unscreened portfolios
- RLAM Executive Committee receives monthly and annual reports, invited to comment on strategy
- Royal London Group takes an active interest in RLAM's responsible investment activity and has set RLAM targets, which include high performance in the UN PRI annual survey.
- Signatory to UN PRI and member of its Fixed Income steering groups, signatory to UK Stewardship Code, members of UK Sustainable Investment and Finance Association, International Corporate Governance Network and board member of the Institutional Investor Group on Climate Change.

PUBLIC EQUITIES

Proxy voting

RLAM votes all of its shares in UK listed companies, which accounts for the overwhelming majority of our holdings, alongside certain global holdings in actively managed funds. We do this in accordance with our detailed [voting policy](#) which is reviewed annually and incorporates the views of our fund managers and governance best practice standards. We disclose how we have voted and the rationale for our vote where we have not supported management. Our online searchable [voting database](#) is updated monthly.

For investors, voting can become an automated affair. We strive to avoid this using our votes to hold companies to high standards. Increasingly companies will approach us to seek our views on governance and remuneration matters because we are often a top twenty shareholder. These meetings will often be attended by fund managers alongside a member of the responsible investment team with a view to gaining greater insight into the company. On occasion, we will attend AGMs and raise issues of concern. We consider shareholder resolutions on a case-by-case basis and may break with our default position of supporting management where we believe the resolution has been properly tabled, raises concerns material to institutional investors and has been inadequately addressed by the company.

As of January 1, 2015 RLAM votes all shares in a consistent fashion via an electronic, auditable and transparent voting platform. We use multiple sources of external research to help inform our views, but our in-house team always makes the final voting decision based on our voting policy, expertise, and understanding of companies' unique circumstances. The team responsible for this process sit alongside the fund managers who are actively involved in the voting decisions for their respective holdings. Additionally we will write to all our active holdings explaining where we have not voted in line with management and why we have decided to oppose the resolution.

Engagement

Engagement refers to our dialogue with companies, regulators, NGOs and other agents in the investment chain. As a responsible investor, we carry out engagement in order to support better standards of behaviour, risk management, reform for a more sustainable economy and importantly, the collective social and environmental impact that our assets have. As with all institutional investors, we have a financial interest in the wellbeing of the wider economy. Consistent with this interest, we will act to minimise the risk that our assets might be the source of avoidable environmental damage or social harm. We recognise that engagement is time-consuming and measurement of impact can be difficult, but we consider it an essential part of our risk management and due diligence on companies. As with all responsible investment activity, we must make judicious use of finite resources. Engagement will normally meet more than one of the following criteria:

- Material to investment performance
- Intrinsically linked to assets held
- Importance to our clients
- Reputational impact

Each year, we cross-reference the companies in which we have the largest holdings with those whose corporate governance or environmental and social practices pose highest risk and conduct pre-emptive engagement to ensure our views are heard. Some work is planned and thematic whereas other engagements are necessarily reactive to events. We track the number, nature and goals of our engagements, as well as the outcomes. We report on our engagement outcomes in quarterly public reports and to the UN PRI. We initiate or join collective engagements with other investors where we believe it will be more effective than engaging alone or to draw attention to a worthy topic.

Integration

Integration refers to how we factor in ESG data that may positively or negatively influence the financial performance of a security or portfolio. We aim to integrate ESG analysis into our investment process where the issues are material, and this is an evolving strategy that we continue to refine. In the case of equities, RLAM's funds operate a number of discrete strategies with a high degree of fund manager autonomy (as distinct from the common policies applying to our Ethical and Sustainable Trusts, respectively as discussed below). Besides voting and engaging on corporate governance with the input of fund managers we have a number of sources of intelligence that alert us to material deteriorations in the Environmental & Social performance indicators that we consider to be most relevant for each sector. Our engagement work also creates natural avenues for investigation. Sometimes our conclusions about a company's performance or culture will lead fund managers to change their holdings however as we believe that fund managers should be free to adopt the most relevant approach for client funds this integration is not yet systematic and monitoring and analysis, with the exception of the Sustainable and Ethical funds, is post-investment.

FIXED INTEREST

RLAM is a well-known investor in fixed interest securities. Identification and evaluation of ESG issues and their potential impact on the security of company cash flows and balance sheets, is a key element of our corporate bond investment process and is embedded in our approach to portfolio construction. RLAM's credit team pays close attention to the covenants in issuances often overlooked by the market, as these can offer unpriced protections. This often acts as a proxy for conventional governance. Our ESG team works closely with our credit team to identify the ESG issues that could plausibly affect their outlook on a sector, or help distinguish securities with lower risk. This is discussed in more detail in the next section.

Fixed Interest Integration

Our aim is to deliver ESG analysis and a programme of engagement that is useful to the Fixed Interest team in pricing risk and satisfying our commitments to clients on responsible investment. To do this, we:

- Assess potential ESG risks across sectors from a creditor standpoint
- Work with credit analysts to identify ESG issues that warrant further investigation
- Conduct analysis on the identified risks and their potential impact on specific sectors or issuers. Given that many issuers are unlisted, unrated by credit agencies or are simply smaller organisations without a track record in publishing ESG information, this often involves primary research and direct interaction with issuers.
- Circulate analysis to credit colleagues to help inform analysts and fund managers' views of an issue, sector or issuer.

In addition, the Responsible Investment team:

- Attends roadshow meetings with key issuers
- Circulates relevant news-flow to the credit team on identified ESG risks
- Provides analysis on the sustainability credentials of green bond issues
- Shares with credit analysts and fund managers our ESG analysis of issuers assessed as part of the screening process for sustainable funds.

Fixed Interest Engagement

Our approach to Fixed Interest engagement is closely aligned to the integration process outlined above. Our engagement programme focuses on key sectors and themes that we have identified jointly with the credit team as relevant. Meeting notes and observations from meetings are fed back to credit analysts and in many instances, credit analysts will attend RI meetings with issuers. Our findings also feed into the reporting process to clients that have expressed an interest in responsible investment. Fixed interest integration and engagement is a relatively new area of responsible investment and RLAM continues to develop its approach.

PRIVATE EQUITY

RLAM's involvement in private equity is purely as a Limited Partner (LP). ESG issues often have both greater impact – and offer more opportunity for direct management – while under private ownership, where holding periods are longer than average public equity holdings and the level of ownership by the General Partner (GP) is absolute or enough to give it special rights.

Existing relationships have been reviewed for any risk outliers. All new and any renewed agreements with our GPs are reviewed for whether the GP has the capacity and skill to manage ESG issues adequately and whether the agreement in particular is likely to raise above-average risks. Our requirements regarding ESG due diligence and management by our GPs are a standard part of new or updated Investment Agreements. We have an industry-leading co-investment agreement with the private equity expert KKR that screens all co-investment opportunities presented to us for ESG risks and opportunities. Agreed-upon areas have measures built into the 100-day plan. Where we have ESG considerations stipulated in Agreements, GPs must report to us regularly and at pre-exit stage on how these issues have been managed.

OTHER EXTERNAL MANAGERS

In the rare instances where we outsource investment management to a third party, consistent with the UN PRI, we consider whether bidding parties meet a high minimum standard on integrating a responsible investment approach. Our requirements regarding RI and ESG are made clear in the Investment Management Agreement and the manager must report to us regularly on implementation.

PROPERTY

We are committed to responsible investment and sustainability in our property portfolio and aim to achieve environmental good practice throughout our acquisition, development and management activities. In addition to our compliance with the relevant environmental legislation, we also commit to the following objectives:

- set clear environmental objectives and, where possible, specific targets;
- develop and implement procedures to achieve these objectives;
- monitor and review progress;
- continuous improvement in environmental performance;
- report on the environmental performance of our property portfolios.

For **property development** projects, we undertake surveys to assess environmental hazards, include environmental criteria in our design brief, work with contractors and suppliers to reduce waste, energy and water use, and communicate our policy to consultants, contractors and suppliers. Our **property management** team aims to reduce the use of energy, water, waste and other natural resources, undertake regular maintenance and improvement to operate a high environmental efficiency, minimise impacts to human health and the environment, and engage with tenants on environmental issues.

We set targets and review the sustainability performance of our property portfolios annually and disclose these [on our website](#). Our commitment to sustainability also forms a part of the induction of new staff in our property team.

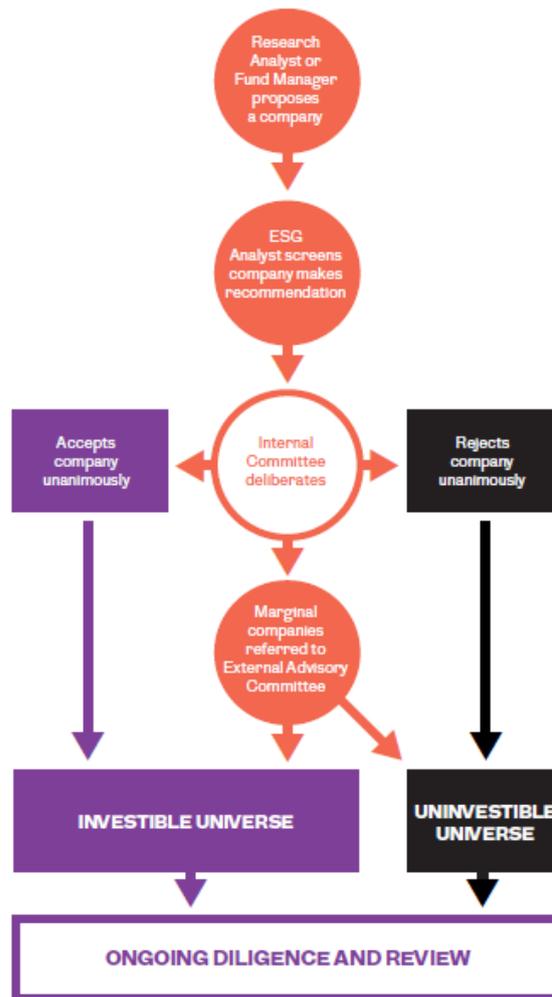
SUSTAINABLE FUNDS

RLAM offers a range of Sustainable Trusts covering the spectrum of asset classes. The purpose of these funds is to offer a successful investment solution to clients who wish to see their money invested in a way that systematically avoids companies with the highest ESG impacts, directing it instead to companies helping solve social and environmental challenges. This may be through the products and services they offer (e.g. healthcare, cleaner energy) or by virtue of the fact that while not 'solution' companies in terms of products and services they nevertheless show leadership in their management of ESG impacts.

There is a clear process governing what companies may and may not be eligible for investment. Our investment decision process involves an in-depth review of economic, industry and company information, governance, and ESG topics that are material to investors and stakeholders.

The Sustainable Trusts

Companies admitted to the investable universe of the Sustainable Trusts are vetted and regularly reviewed according to strict and transparent criteria. In recent years, we have shifted from a “best in class on ESG” approach to selecting companies with a strong emphasis on needing to meet a positive criterion as well as meeting the exclusion criteria, such as tobacco and armaments manufacture. This positive criterion is the requirement for companies, through their products, services or standards, to produce a “net benefit” for the environment and society. In short, this means seeking out companies that are more part of solutions for, than the problem with, unsustainable economic activity. The diagram (right) shows the lengths we go to ensure that all stakeholders - the ESG team, the fund managers and our external advisory committee - are involved in and take responsibility for the approval process.



The same principles are applied to investment trusts, infrastructure and other asset classes. The validity of each approved security is reviewed every two years but may be reviewed sooner if there is reason to doubt continued eligibility.

ETHICAL FUNDS

RLAM offers an Ethical Bond Fund and an Ethical Equity Fund aimed at clients that wish to avoid sectors with the highest ethical concerns; namely tobacco, armaments, alcohol, gambling, pornography, nuclear power and animal testing for non-medical purposes. Companies with 10% of revenues or more coming from these activities are avoided. Companies with the worst performance on environmental issues are also excluded. An independent third party research provider determines the permissible investment universe for these funds.

TRANSPARENCY AND REPORTING

We aim to be as transparent as possible about our responsible investment activities and offer a balanced view of our successes and challenges. Below are examples of our efforts to be transparent:

We publish quarterly reviews of our responsible investment activity [here](#)

Our voting record can be accessed [here](#)

Our UN PRI Transparency Reports can be found [here](#)

Our Stewardship Code statement of compliance is [here](#)

We also regularly publish opinion pieces and in-depth research on ESG issues in the Our Views section of the [RLAM website](#)

RLAM is an active respondent to relevant government consultations (e.g. the Law Commission's report on Fiduciary Duty of Investment Intermediaries) and opts for our submissions to be disclosed publicly.

We respond to other survey requests at our discretion; such as the Trades Unions Congress voting survey and ShareAction surveys which compare us to other asset managers on [how we vote](#) and on [integration of ESG issues](#), respectively.

Our Responsible Investment professionals meet with clients regularly to discuss their work and invite comments and queries. Clients may receive more detailed reporting, if they require it. Clients are also invited to offer views on our evolving Responsible Investment policy. Our responsible investment specialists are active participants in industry initiatives and investor collaborations on responsible investment, as listed in our UN PRI Transparency Report. We seek to promote recognised standards of good practice, such as the UN PRI and the UK Stewardship Code.

Conflicts of Interest

Our statement of compliance with the [Stewardship Code](#) explains our approach to managing conflicts of interest. All staff must certify that they have read and accepted our policy on conflicts of interest and receive computer-based and face-to-face training from our risk and compliance team. With reference to our Ethical and Sustainable funds, all securities that are screened out as inadmissible for our funds have hard-stops implemented on our trading platforms. Our external advisory committee provides an opportunity for independent guidance where a conflict of interest may occur at RLAM on which securities meet the screening criteria. Likewise, there is a process for identifying and managing conflicts of interest on the Advisory Committee, for example, where one of its members is associated with a company under review. With regard to voting for all shares that RLAM holds the CIO will make the casting decision where fund managers and responsible investment specialists do not agree how to exercise our stewardship activities. Occasionally, our stewardship may lead companies to ask whether we are prepared to be made insiders in order to resolve concerns we have raised. We may agree to this at our discretion and will at all times remain wholly compliant with our legal obligations.

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