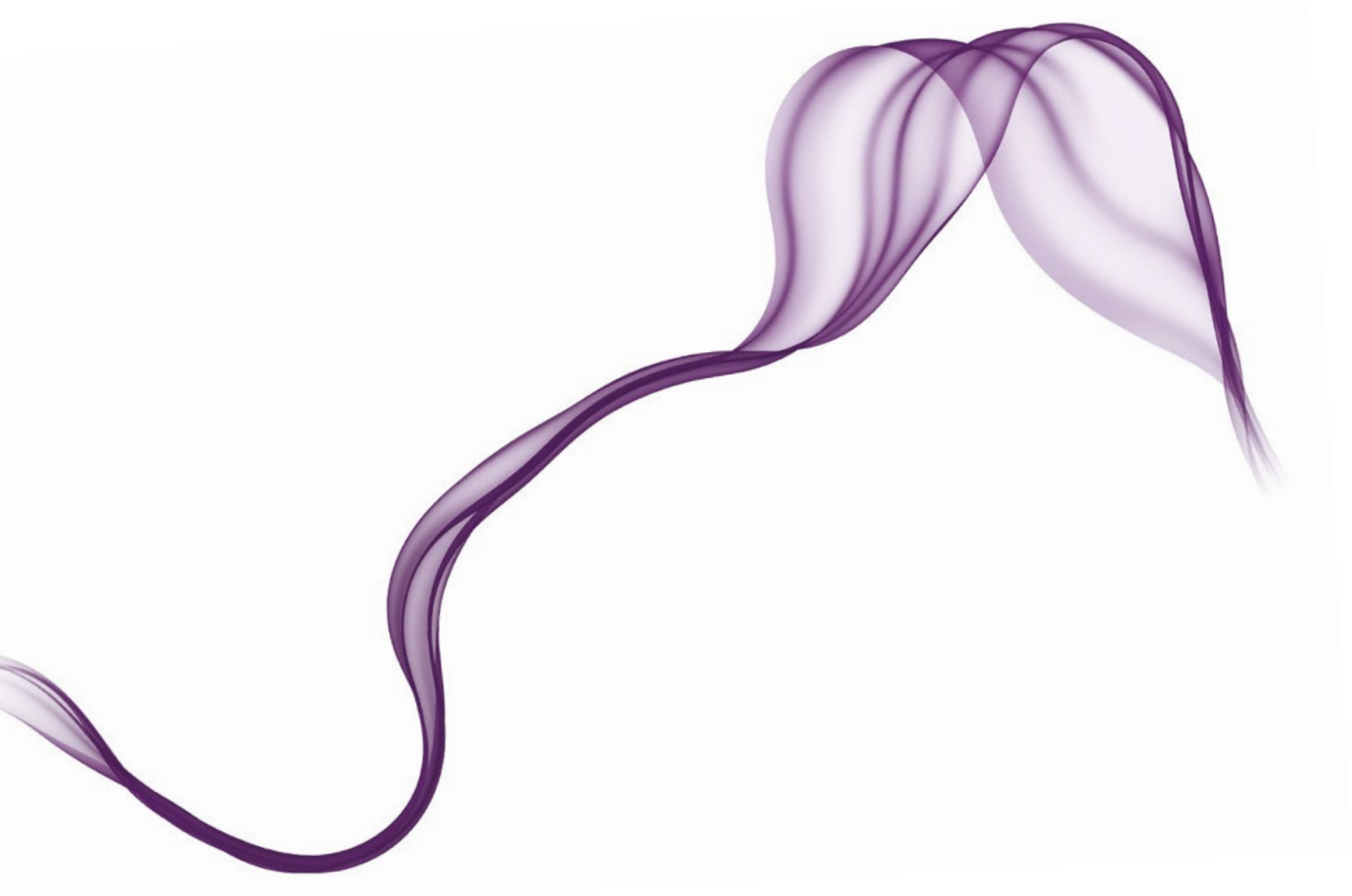
Our Approach to Reporting Outcomes



ROYAL LONDON
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Royal London Asset Management have recently published our first Sustainable Outcomes report. This is a fund level report summarising the environmental and social performance of our Royal London Global Sustainable Equity fund. Here we explain why we are reporting on outcomes, our approach, and what we learned.

From "Tell me" to "Show me"

There is a growing societal demand for asset managers to move beyond talking about sustainable process and start to share more on sustainable results.

Customers increasingly ask us not only to *tell them* what we do (our process), but also show them how our process leads to better environmental and social outcomes.

In part this is also driven by concern over 'greenwashing' (defined as false or misleading claims about the positive impact that company, product or service has on society or the environment). This same concern has led to increased scrutiny through regulation. Both in the EU and UK regulators are introducing legislation which require asset managers to report on more environmental and social issues.

This scrutiny is naturally focused on climate change but also covers issues such as diversity, human rights, quality of work, biodiversity, waste, water & pollution and more.

How will we 'show' you?

We started with a market review of frameworks, standards & other asset managers' reports (covering a range of investment strategies and asset classes) of outcomes/impacts and identified four themes:

1. A focus on the impact of investee companies' products & services but usually not operations
2. Report exclusively positive outcomes using a single Key Performance Indicator (KPI) to measure & report on product & services' impacts (operational outcomes tend to be limited to carbon emissions and/or waste generation or water consumption)
3. Using the word "impact", which has multiple possible interpretations without clearly indicating which definition they use
4. Applied mostly to impact or sustainability themed strategies

However, we think that in the long run to satisfy societal demands for positive sustainable results and regulatory concerns over greenwashing, standards will need to advance even further, and we want to contribute to achieving this. Therefore, we set about creating an approach and framework that aims to:

1. Focus on the outcomes generated by the companies we invest in whether generated through products & services or operations
2. Report all positive and negative outcomes, using as many KPIs as are necessary, per each outcome
3. Concentrate on outcomes, without claiming any *impact* unless we can evidence our investor contribution
4. Be applicable to any fund regardless of strategy

We refer to Outcomes, rather than Impacts, for two reasons:

1. Being focused on the companies we invest in; we define outcomes as short-term changes to environmental and social factors affected by their products and services and/or operations. Impacts for us are longer term changes which are affected by more variables, requiring estimates and assumptions and are therefore more open to debate. Outcomes tend to be easier to measure.
2. We are not an impact investor. While we acknowledge that we "own" a portion of investee companies' outcomes (because we own a portion of the companies themselves) we do not claim contribution (or 'additionality') to their sustainability outcomes – a critical component of Impact Investment. We believe we will be able to claim our own *impact* when we do something **additional** to owning a company, e.g., through engagement, that helps to change those outcomes – the concept of investor contribution. So, by using the word outcomes, we also wanted to distinguish between investee companies and us, and between us and impact investors/funds.

We are constantly learning

Along the way we encountered a few challenges and while we have some ambitious ideas, we know we do not have all the answers and are constantly learning. Some of the challenges and learnings so far include:

- Neither **data availability nor quality** are yet at the level required for us to be able to report on all outcomes in a reliable way
- Yet, even with what is currently available, **a lot of time and effort are needed** to gather, digest and understand it. This will become more apparent as data availability and quality improve, increasing the amount of data we need to analyse
- It is obvious but **client interests, needs and expectations** can vary and we need to be flexible to respond. As the volume and complexity of data we deal with increases we still need to report this in a meaningful way to our clients while maintaining trust and transparency
- **Frameworks and approaches** are constantly evolving and require reporting on different metrics. Different frameworks might be preferred by different clients, while some might not be as suitable for our own needs.

While everything we have learned so far has encouraged us that we are on the right path, we need to work with our teams, clients and others to improve so we're very open to feedback. Meanwhile, we will continue to evolve, develop new processes and systems, and keep our eyes on what best practice is emerging.

Contact us

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

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