Equity Tilt Fund Investment process disclosure

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ROYAL LONDON
ASSET MANAGEMENT

Introduction

This document describes the investment process for the Royal London Equity Tilt Funds. It is for information purposes only and is not a financial promotion. If there is anything you do not understand, you should discuss it with your professional adviser.

The following funds will be managed in line with the process and objectives outlined in this document:

- Royal London UK Core Equity Tilt Fund
- Royal London Europe ex UK Equity Tilt Fund
- Royal London Asia Pacific ex Japan Equity Tilt Fund
- Royal London Japan Equity Tilt Fund
- Royal London US Equity Tilt Fund

The funds will be permitted to use up to 1% of active risk against their reference benchmark to enable the integration of Environmental, Social, and Governance (ESG) and climate factors in order to support the funds objective to reduce carbon intensity and policy to improve the ESG and responsible investment profile.

Portfolio construction and implementation

The funds will take into account the ESG criteria outlined in the sections below whilst applying the below constraints at the stock and sector level:

- Maximum stock weight of +/-25 basis points (i.e. +/- 0.25%) relative to the reference benchmark
- Maximum sector weight of +/-10 basis points (i.e. +/- 0.10%) relative to the reference benchmark
  - Using both level 1 and 2 Industry Classification Benchmark classifications

Funds will be constructed to take into account the above criteria but will apply reasonable tolerance on any constraints at the stock and sector level to prevent Funds will be constructed to take into account the above criteria but will apply reasonable tolerance on any constraints at the stock and sector level to prevent excessive turnover whilst keeping the fund in line with its objectives and satisfying limits on stock concentration.

The fund may hold index derivatives for the same purpose. This may result in small, indirect exposures to securities that do not satisfy the above objectives.

Environment

To begin to address the long-term systemic risk posed by climate change, the funds the funds will aim to deliver an improved carbon profile relative to the reference benchmark using optimisation techniques to enforce a constraint on a fund's weighted average carbon intensity relative to its reference benchmark.

The funds will target up to a 30% reduction in carbon intensity relative to the reference benchmark, conditional on remaining within the permitted tracking error. When such a reduction results in a material impact on tracking error, turnover and/or where stock and sector constraints are breached, funds will target a minimum 10% improvement in carbon intensity.

- Carbon intensity is defined as Scope 1 & 2 emissions (tonnes) per $M revenue using the most recently reported total scope 1 & 2 emissions from public company data. Where company data is not reported, we will use estimated carbon emissions data based on third party data sources and the Investment Manager's own internal analysis.

In addition to focusing on reducing carbon emissions, the fund will also consider a company's ability and willingness to transition to a lower carbon economy by:

- Reducing overall fund exposure, relative to the reference benchmark, to companies that generate more than 10% of revenue from thermal coal
- Reducing overall fund exposure, relative to the reference benchmark, to companies that generate more than 10% of revenue from oil/tar sands
- Leveraging the Investment Manager's Responsible Investment team and proprietary insights, consider actions by the company in making meaningful reductions in their emissions to align with a low carbon future. This aligns with the Investment Manager's policy of engagement over exclusion.
- Seeking to be at least 10% lower carbon intensity than the reference benchmark and overweight investments demonstrably orientated towards businesses with improving climate risk characteristics (as measured by their willingness and ability to transition)

Social

To be successful, companies need to manage their businesses in a way that upholds basic human rights and meets the expectations of wider society.

The funds will aim to have lower exposure to companies that have a significant impact on their stakeholders by:

- reducing overall fund exposure, relative to the reference benchmark, to companies that violate international human rights standards, such as the ten principles in the UN Global Compact
- reducing overall fund exposure, relative to the reference benchmark, to companies that generate more than 10% of revenue from tobacco related business activities
- reducing overall fund exposure, relative to the reference benchmark, to companies that generate more than 10% of revenue from nuclear weapons
- Using news and sentiment data to reduce overall exposure to companies with significant social controversies.

Governance

A focus on strong governance helps ensure that management of companies the funds invest in are subjected to appropriate levels of scrutiny and challenge.

The funds will aim to have lower exposure to companies with poor governance practices by taking into account:

- The Investment Manager's proprietary research and engagement data on executive pay and remuneration related resolutions
- Broader datasets on voting results from historical resolutions related to executive pay and remuneration where the Investment Manager does not have coverage
- By reducing overall fund exposure to companies with significant remuneration controversies.

Exclusions

The funds will not invest in companies that produce controversial weapons. This is defined as companies that manufacture cluster munitions, land mines, chemical and biological weapons. More information on the Investment Manager's Controversial Weapons Exclusion policy is available here or at our website at www.rlam.co.uk/globalassets/media/literature/policies/controversial-weapons-policy-dec-20-web.pdf

Future modifications to investment process

Where the Investment Manager deems it suitable to change existing factors or introduce new factors and inputs into the investment process they will be:

- Researched to demonstrate one or more of their ability to 1) better classify stocks, and consequently take exposure, according to the aforementioned ESG criteria; 2) their benefit to portfolio construction, diversification and risk management
- Run in parallel to the existing funds for a period of no less than one month
- Presented to a committee of regulated persons for approval to sign off ahead of being incorporated into the live process
- Where material, investors will be notified of the changes and new factors will be added to the RLAM Equity Tilt Investment Process disclosure document.

Periodic review

This document will be reviewed and updated on an annual basis but may change more frequently from time to time to reflect material new developments, research and improved ESG data and insights.

Contact us

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

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