Investing for a sustainable future

2021

The climate crisis

This report considers the impact of climate change on our business, customers and members and how we manage the associated risks. It includes disclosures in line with certain Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

The United Nations' International Panel on Climate Change (IPCC) has highlighted that the climate crisis is a threat to both human wellbeing and the health of the planet. Despite this climate crisis, they say the actions being taken globally are insufficient to meet the goals of the Paris Agreement.

In almost all future scenarios modelled by the IPCC for their April 2022 report, the global temperature rise is expected to hit 1.5°C by the early 2030s (IPCC WGII AR6).

To minimise these risks, transformational action is essential, with clear policies that support and incentivise investment in the green economy and account for the environmental costs of high-carbon activities.

Paris Agreement

The Paris Agreement was ratified by 189 states at the 2015 UN Climate Change Conference of the Parties (COP21). The agreement aims to reduce global greenhouse gas emissions, and has a long-term goal to limit the global temperature increase. It aims to keep temperatures well below 2°C above pre-industrial levels, and preferably limit the increase to 1.5 °C.

COP26: stewardship in the climate era

The COP26 UN Climate Change conference was held in Glasgow in 2021. Royal London was there, with our Group Chief Executive, Barry O'Dwyer, speaking at events.

One of the most important outcomes of COP26 in Glasgow was the request for governments to 'revisit and strengthen' their 2030 national emission reduction targets before the end of 2022. Speaking at Chatham House in January 2022, COP26 President, Alok Sharma, gave a clear message: 'Unless we honour the promises made, to turn the commitments in the Glasgow Climate Pact into action, they will wither on the vine.'

"The world faces unavoidable multiple climate hazards over the next two decades with global warming of 1.5°C (2.7°F). Even temporarily exceeding this warming level will result in additional severe impacts, some of which will be irreversible. Risks for society will increase, including to infrastructure and low-lying coastal settlements."
– IPCC 2022.

Our actions

We are driven by our Purpose:
'Protecting today, investing in tomorrow. Together we are mutually responsible'.
Two objectives we focus on are:

- helping build financial resilience; and
- moving fairly to a sustainable world.

When we consider the move to a sustainable world we think about both:

- the impact the climate crisis may have on our business, our members, and our customers; and
- the impact we have on the climate.

These dual considerations lead us to scrutinise potential business opportunities alongside responsible mitigation opportunities,while closely managing climate-related risks.

In this report we set out our approach to assessing these combined considerations.

Customer sentiment: our research findings

Customer research has shown growing public concern over the climate crisis. Our own research has shown that 67% of the public believe we face a state of emergency due to the climate crisis, and 71% believe shared responsibility is necessary to address the climate crisis*. In fact, 60% of our customers are concerned about their own contribution to the climate crisis and 43% expect Royal London to do everything necessary to urgently address climate change on behalf of our customers**. It is important to us, as a member-owned organisation, to reflect our customers' and members' views in the products we design and the way we conduct our business.

* Royal London research June 2021, sample size: 2,943 (UK Nat Rep)
** Royal London research June 2021, sample size: 2,755 Royal London customers

Our Beliefs and Commitments

We believe:

- Our customers want to know where their money is invested and the impact it has on the world around them.
- The best future for our customers is one where we collectively achieve the goals of the Paris Agreement.
- We should act as a responsible steward of the assets we invest in on behalf of our customers, who rely on us to adopt a responsible investment approach.
- Change is best driven by being an active asset owner and engaging with companies where there are issues to be addressed.
- We must influence and invest in the transition to a low-carbon economy by working with the companies in which we invest.
- We must think carefully about our own operational impact on the environment.
- The next decade is crucial and ambition must now translate into action with clear policies that support and incentivise investment in the green economy and account for the environmental costs of high-carbon activities.

Our commitments:

- Reduce the emissions from our investment portfolio by 50% by 2030 as part of the transition to net zero by 2050[1]. Our climate targets are based on the expectation that governments and policy-makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and that the actions we take do not contravene Royal London's fiduciary duties.
- Achieve net zero direct operational emissions by 2030 (Scopes 1 and 2)[2].
- Develop solutions that will enable our customers to invest in the low-carbon transition.
- Royal London Asset Management will transition core elements of its fund range to sustainable objectives.
- Engage with the utilities sector and our top ten carbon emitters on the need for a Just Transition plan.
- When appropriate, consider divesting from companies unwilling or unable to put in place their own credible net zero strategy.

What is the Just Transition?

Rapid climate action that limits global warming to below 1.5° can help prevent some of the worst human and economic costs of climate change.

The scale and pace of the change required to achieve this goal is unprecedented and we have seen that rapid and disorderly changes can lead to increased social costs and leave people, sectors and communities stranded.

The concept of the Just Transition is to ensure social issues are considered, advocating for climate action that supports an inclusive economy and avoids creating new or exacerbating existing injustices.

Why we care about the Just Transition

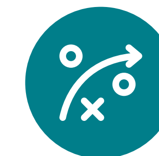
Our employees, customers, members, and the companies that we provide workplace pensions to will all be impacted by the transition to a low-carbon economy.

As a mutual this matters to us. We want to minimise the likelihood of the transition damaging our customers' ability to build financial resilience.

We are mutually responsible for protecting the standard of living of this and future generations.

1. See page 8 for the basis and assumptions underlying our climate targets.
2. Our operational emissions targets include emissions arising: directly from operations controlled by the Company ('Scope 1'); indirectly via consumed energy ('Scope 2'). The baseline year for our operational emissions is 2019. We disclose separately the emissions ('Scope 3') from the companies in which we invest as our 'portfolio emissions'.

Assessing the impact of possible futures



During 2021 we voluntarily undertook the Bank of England's recommended Climate Biennial Exploratory Scenario (CBES) analysis. This involved the modelling of three plausible long-term climate impact scenarios (pathways), to assess potential financial and strategic impacts. These three pathways are: Paris Orderly, Paris Disorderly, and Failed Transition. We also assessed a scenario under which customers' life expectancies are negatively impacted by the climate crisis.

These climate pathways, and the resulting economic scenarios we have assessed, represent three plausible futures. They do not represent our 'best guess' of likely futures.

The analysis also supports the Bank of England's broader CBES goals including:

- sizing the financial system's exposures to climate-related risks;
- understanding the challenges to the provision of financial services under participants' existing business models.

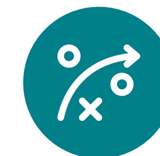
Over 2021 we engaged Ortec Finance (a leading consultancy) to assist in translating these climate pathways into potential business model impacts. This involved detailed top-down scenario analysis and meticulous modelling to test our resilience, including likely effects on customers' investment portfolios. As a final step we then translated these into potential business model impacts.

Climate risks at a glance

The table summarises the risks per climate pathway.

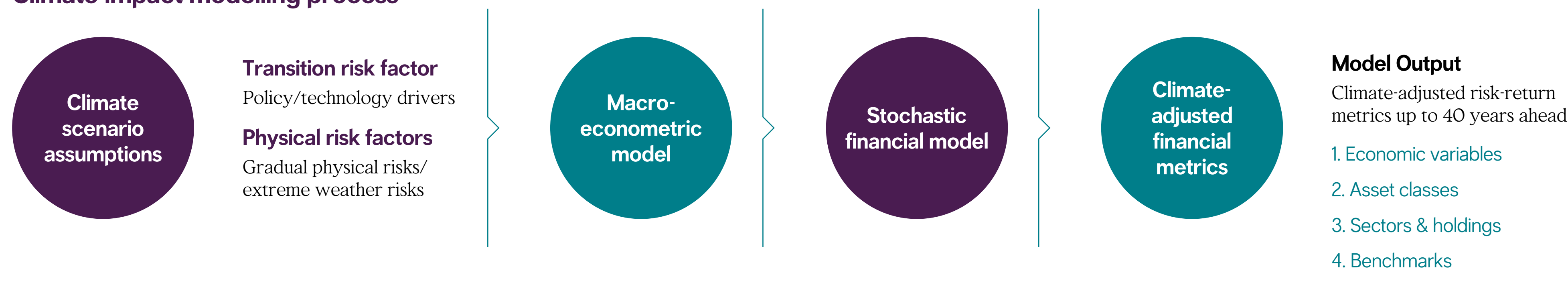
	Paris Orderly Transition	Paris Disorderly Transition	Failed Transition
Global warming	Paris Agreement goals met • Average global warming stabilises at 1.5°C • CO_2 Emissions ~ IPCC RCP 2.6	Paris Agreement goals met • Average global warming stabilises at 1.5°C • CO_2 Emissions ~ IPCC RCP 2.6	Paris Agreement goals not met • Average global warming stabilises at 4°C • CO_2 Emissions ~ IPCC RCP 6.0
Transition risks*	Transition risks increase due to • Ambitious low-carbon policies • High investment in low-carbon technologies • Substitution away from fossil fuels to cleaner energy sources and biofuel	Transition risks increase due to • Ambitious low-carbon policies • High investment in low-carbon technologies • Substitution away from fossil fuels to cleaner energy sources and biofuel • Abrupt pricing-in of transition risks and sentiment shock	No impact from transition to low carbon economy because • Economies follow the business-as-usual track continuing current low carbon policies and technology trends (e.g. significant falls in renewable energy prices) • No additional new policy measures
Physical risks	• Moderate physical impact with regional differences • Impacts are greater than observed today	• Moderate physical impact with regional differences • Impacts are greater than observed today, but still much less than under a Failed Transition Pathway	Severe physical impacts occur, increasing over time as temperatures rise – both gradual physical changes such as agricultural and worker productivity, as well as more frequent and severe extreme weather events
Impact on GDP	• Global GDP lowers • US GDP reduced by 12.8% by 2060	• Global GDP level is slightly lower than in the Paris Orderly Transition Pathway due to the sentiment shock • US GDP expected to be 13.2% lower than the baseline in 2060	• Global GDP is significantly lower than the baseline in 2010. • US GDP expected to the 16.1% lower than the baseline by 2060
Financial market impacts	• Transition is assumed to occur as smoothly as possible • The market gradually prices in perceived transition and physical risks over 2021-2025	• Sudden repricing of assets in 2025 • Followed by a sudden sentiment shock to the financial system in 2025 • Increased volatility in 2024-2026	• Markets price-in physical risks up to 2050 by end of the decade (2026-2030) • A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks post-2050

* Risks related to market adjustments resulting from the transition to a low carbon economy



The flowchart below outlines the steps involved in our climate impact modelling process. This begins with high-level climate scenario assumptions, aligning to the pathways described on page 5. Following increasingly granular steps throughout the modelling process, the model outputs a range of forward-looking metrics representing possible economic impacts over the next 40 years.

Climate impact modelling process



Model Output

Climate-adjusted risk-return metrics up to 40 years ahead

1. Economic variables
2. Asset classes
3. Sectors & holdings
4. Benchmarks

Modelling Outcomes and the Impacts on Royal London

A detailed report on the findings from our climate pathway analysis was disclosed to the Bank of England (Prudential Risk Authority) as part of our 2021 ORSA report*. Consistent with our assessment of other uncertainties facing Royal London and our customers, this report included a mix of quantitative and qualitative analysis on the potential impacts to our business lines, strategy and financial planning, over the short, medium and long terms. We have included a brief summary of our qualitative assessment on page 17.

This qualitative and quantitative analysis of the potential impacts across a range of future climate pathways has driven forward our thinking on climate impacts over each timeframe, supporting the development of our investment and business strategies to mitigate these risks while maximising opportunities.

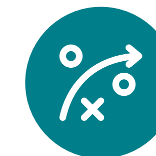
Our findings indicate that increasing temperatures and/or a disorderly transition lead to a range of negative economic and social impacts, of varying severity, depending on the pathway that is assumed.

The impacts of market shocks will be dampened by equity hedging in place. The Failed Transition Pathway shows a more material adverse impact. We will refresh our modelling of the impact from these scenarios on an annual basis, keeping the chosen pathways and assumed systemic impacts under review as policy, climate science and industry thinking evolve.

Financial stress tests cannot measure all risks facing the organisation, in particular the risks associated with changing customer expectations, the competitive environment, or the political landscape. These non-financial risks may lead indirectly to financial impacts including volatility in our capital requirements, shocks to the profitability of existing business, and reductions to our new business sales. We will monitor and manage these transitional forces by seeking out internal and external climate risk mitigation solutions and maximising any new opportunities. We will also keep impacts to our pricing basis and product development under review in light of these forces, including regular review of customer preferences.

* "Own Risk and Solvency Assessment" - an exercise carried out by insurers subject to the EIOPA Solvency II regulations (or equivalent regime e.g. under the Prudential Regulation Authority within the UK). ORSA submissions assess the adequacy of the insurer's current and future solvency position and risk management position under stressed scenarios.

Our climate commitments



Baselining the carbon emissions of our portfolio and setting climate targets is a necessary first step in the effective management of climate related risks and opportunities as we contribute to the transition to a lower carbon economy. But as COP26 has shown, governments and regulators have a critical role to play to unlock the potential of the market and scale the opportunities available for institutional investment.

We are founding signatories to the IIGCC Net Zero Investment Framework and have adopted both long-term and short-term climate targets, aiming to halve the carbon intensity of our investment portfolio by 2030 and achieve net zero by 2050. This commitment is based on the expectation that governments and policy-makers will deliver on their commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations. We prefer engagement over divestment, as we cannot divest our way to a greener planet. Instead we engage with the companies we invest in to understand how they plan to navigate the transition to a low-carbon economy and promote the need for a Just Transition.

In addition to a portfolio emissions reduction target, we are setting objectives to develop new funds which offer access to climate solutions, a target to drive engagement on the Just Transition and targets to reduce the emissions from our own operations. Our approach means that we are measuring both the real-world emissions reductions, made by the companies we invest in, and the reduction achieved by changing our investment and asset mix.

The basis and assumptions underpinning our targets are set out in detail on page 8.

Portfolio emissions

Our commitments

- Reduce the emissions from our investment portfolio by 50% by 2030 as part of the transition to net zero by 2050.

The actions of governments and a supportive policy environment are critical enablers to achieve our net zero ambitions.

What we achieved over 2021

- During 2021 our internal assets increased from £114bn to £124bn. Despite the increase in assets the carbon emissions (tCO2e) from our equity and corporate fixed income portfolios reduced by 26% and the carbon emissions per £m invested reduced by 35%. This reduction is a combination of reductions made by the companies we invest in (24%) and changes we have made to our portfolio composition (11%).

Climate solutions

Our commitments

- As a Group we commit to developing solutions that will enable our customers to invest in the low-carbon transition.
- Royal London Asset Management will transition core elements of its fund range to sustainable objectives.

What we achieved over 2021

- Made changes to £23bn of indexed equities in our Governed Range to improve their carbon footprint, reducing the carbon intensity by 16% by the end of 2021.
- Substantially revised our Investment Philosophy and Beliefs to explicitly incorporate climate considerations.

Engagement activities

Our commitments

- Engage with the utilities sector and our top ten carbon emitters on the need for a Just Transition plan.
- When appropriate, we will consider divesting from companies which are unwilling or unable to put in place a credible net zero strategy.

What we achieved over 2021

- Royal London Asset Management engaged with seven leading utility companies, six of which published Just Transition plans.
- Refined our approach to stewardship, voting, and engagement priorities across our investments.

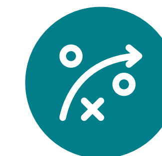
Operational emissions

Our commitments

- Net zero carbon in our Scope 1 and 2 Operational Emissions by 2030.
- 60% absolute reduction in direct (Scope 1) emissions by 2025.
- 100% renewable electricity (Scope 2) across our offices by 2025.

What we achieved over 2021

- Maintained carbon neutrality in our Scope 1 and 2 Operational Emissions.
- Reduced our direct (Scope 1) Operational Emissions by 68%.
- Expanded our focus to all our operational Scope 3 emissions, which will enable us to establish our pathway to net zero in our indirect operational emissions.



The basis and assumptions underlying our climate targets

Our climate targets are based on the expectation that governments and policy-makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and that the actions we take, do not contravene Royal London's fiduciary duties.

Our operational emissions targets include emissions arising: directly from operations controlled by the Company ('Scope 1'); indirectly via consumed energy ('Scope 2'). The baseline year for our operational emissions is 2019. We disclose separately the emissions ('Scope 3') from the companies in which we invest as our 'portfolio emissions'.

Our portfolio emissions assumptions

The portfolio emissions targets we have set include assets that are controlled by the Royal London Mutual Insurance Society Limited and are managed on its behalf by Royal London Asset Management. This includes the regulated investment funds managed by Royal London Asset Management. It excludes segregated mandates managed by Royal London Asset Management on behalf of its external clients. The baseline year for our portfolio emissions is 2020. Royal London's portfolio emissions targets are based on the weighted average carbon intensity (WACI) metric. This approach facilitates a consistent measure of Royal London's carbon emissions intensity over time, unaffected by business growth. The measure also enables stakeholders to make more direct comparisons across companies and funds.

The limitations of emissions data

Not all companies that we invest in consistently disclose their emissions. Where disclosures are made, these are often restricted to their Scope 1 and 2 emissions. For some companies their Scope 3 emissions are material, for example where the emissions arising from the use of a company's products exceed the emissions created during the production process. Furthermore, not all our investments are in companies and where this is the case emissions data can be even harder to quantify.

This year we can disclose the Scope 1 and 2 emissions associated with 70% of our listed equity and corporate fixed income holdings. These asset classes make up 63% of our total assets. Our disclosures will improve as data quality improves and we will be transparent about the quality and coverage of our emissions disclosures. We use MSCI as our data provider, they calculate carbon emissions based on dollars ($) and this is reflected in our disclosure. Their methodology is available online at www.msci.com.

Our actions over 2021

During 2021 we substantially revised our Investment Philosophy and Beliefs to explicitly incorporate climate considerations.

ESG integration across Royal London Asset Management

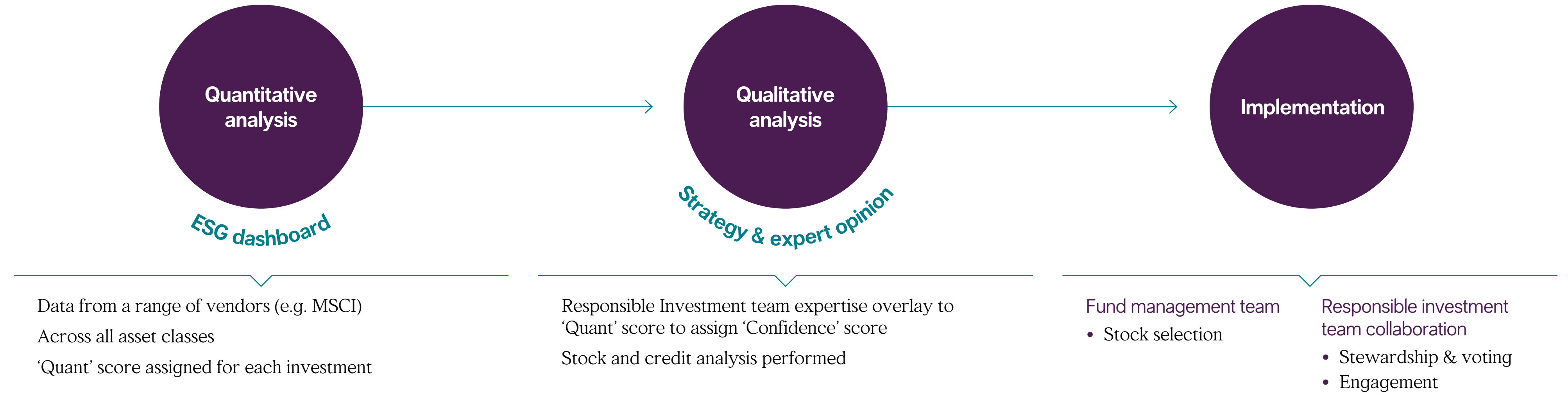
As responsible asset owners we believe it is important to integrate ESG factors into our investment decisions. This aligns with our desire to support policy makers and businesses as they work toward a sustainable economy that is resilient to the climate crisis.

We monitor and assess our asset managers' responsible investing activity and performance, ensuring that our investment beliefs are being put into practice in accordance with our asset manager monitoring framework.

Over 2021 Royal London Asset Management, which manages over 95% of our total assets, has continued to develop its climate and ESG assessment capabilities and model. The bespoke model scores companies in relation to ESG risks and opportunities by enriching third-party data with the knowledge and experience of our investment and Responsible Investment (RI) teams, including research and stewardship actions carried out by the RI team in collaboration with fund managers.

This model and its outputs, in the form of an aggregated dashboard, provide Royal London Asset Management's fund managers instant access to the knowledge and experience we possess across the business, allowing for more efficient ESG integration.

Asset manager ESG integration – Royal London Asset Management approach



Data from a range of vendors (e.g. MSCI)

Across all asset classes

'Quant' score assigned for each investment

Responsible Investment team expertise overlay to 'Quant' score to assign 'Confidence' score

Stock and credit analysis performed

Fund management team
- Stock selection

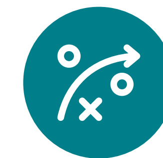
Responsible investment team collaboration
- Stewardship & voting
- Engagement

Impacting the world

Allowing for ESG factors in our investment decisions helps us invest more sustainably on behalf of our customers. That is, we can be more confident in our assessment of companies' true long term value by actively considering companies' environmental, social and governance credentials (ESG). However, while a focus on ESG helps mitigate investment risks and maximise investment opportunities, it does little to address the climate crisis in the real world. This is why we are also committed to developing solutions that will enable our customers to invest in the low-carbon transition.

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."



Proposition development

We continue to invest in the development of our proposition and products by

- building on our existing ESG and climate capabilities to enhance existing funds; and
- bringing new funds and products to market.

In 2021, the Royal London Group Board (our Board) agreed to move away from market weight as an investment strategy. Our decision is driven by the 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.

"…we can better protect the value of our customers' investments by taking a more active investment approach"

Putting our beliefs into action – Moving away from market-weight passive to 'equity tilt' solutions

During 2021 Royal London took a significant step forward in responsible investing by actively working with Royal London Asset Management to transition the Royal London Asset Management passive equity funds and our segregated mandates into climate- and ESG-tilted equity solutions.

The proposition essentially increases holdings of companies with better climate and ESG practices and reduces holdings in companies which are not managing these issues as well as their peers.

We transitioned £23bn of passive equities in our Governed Range reducing the range's carbon footprint by 16% by the end of 2021.

Stewardship and engagement

We are committed to acting and investing responsibly. As the UK's largest mutual life, pensions, and investment company, we are guided by what is in our customers' best interests. As a leading investor, we believe we can make a significant difference on our customers' behalf by actively engaging with the businesses and projects we invest in to influence positive ESG outcomes, while also delivering investment returns.

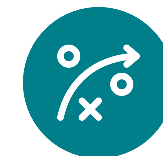
We believe that generating returns is about more than simply buying and selling assets. We are advocates of the need to take a long-term view and being responsible owners of the companies we invest in. Engaging with investee companies on a broad range of issues is central to our stewardship approach and supports our aim of enhancing returns for our customers while delivering benefits for society as a whole.

Active engagement vs divesting?

We aim to bring about real-world change by effectively engaging with the companies in our portfolio, influencing their transition to a low-carbon economy. We also work with other asset owners to influence companies and policy makers, vigorously encouraging policies that will reduce the negative impacts of climate change on our customers through voting rights and lobbying efforts.

We do not support immediate divestment from high-emitting companies. Although this leads to a low-carbon portfolio, this approach leads to high-emitting companies lacking influential stakeholders interested in pursuing a reduction in carbon emissions. The net impact is therefore uncontrolled, or possibly even higher emissions. At Royal London, we want to bring about real change to the real world to protect the standard of living of this and future generations. By remaining a stakeholder within these industries we can drive change through our voting rights and lobbying efforts.

However, this approach is time bound. We are clear to companies in our portfolio that we will consider divesting from companies that are unwilling or unable to put in place a credible net zero strategy.



Company engagement

To ensure that our customers' money is managed in line with our Stewardship and Engagement Policy, we have designed and implemented an asset manager monitoring framework. Under this framework, we monitor and assess our asset managers' responsible investing activity and performance, ensuring that the framework's principles are put into practice.

We recognise that actively exercising voting rights is essential to being a responsible investor and is a key mechanism to positively influence investee companies on behalf of our customers and members.

The voting principles that guide our asset managers, to ensure they vote in line with Royal London's expectations, are described in detail on www.royallondon.com.

Engagement with companies on strategic and ESG matters is a core part of our stewardship responsibilities.

We believe that good company engagement requires ongoing contact through regular meetings with either management or the Board. The aim is to encourage companies to achieve positive ESG outcomes and adopt behaviours that are in the interests of our customers and wider society.

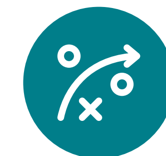
Over 2021 we refined our approach to Stewardship, voting, and engagement priorities across our investments. Our revised Stewardship and Engagement Policy outlines how we monitor and engage with investee companies, exercise our voting rights, co-operate with other shareholders, communicate with relevant stakeholders, and manage actual and potential conflicts of interest.

Our Stewardship and Engagement policy addresses Royal London's obligations with regard to the implementation of the EU Shareholder Rights Directive in UK legislation. In addition, it outlines how we, as asset owners, evidence our commitment as responsible investors by actively exercising our rights as shareholders, instructing asset managers on priority engagement themes, and reserving the right to decide on the exclusions that are important to our customers.

In addition to our responsibilities as an asset owner, our asset management business, Royal London Asset Management, is responsible for managing over 95% of our assets and undertakes stewardship and engagement activity on our behalf. Royal London Asset Management also does this on behalf of their own external customers and clients.

The quality of the activity undertaken by Royal London Asset Management was recognised through its successful submission to become a signatory to the new UK Stewardship Code 2020. The Financial Reporting Council (FRC) reviews and approves all submissions to ensure that applicants meet the UK standards which are some of the highest in the world.

As stewards, we have a duty to influence and challenge the companies we invest in to overcome any inherent focus on the short term; to think and act for the long term in a way that allows us to meet our customers' and society's current needs without compromising the ability of future generations to meet theirs.



Industry engagement

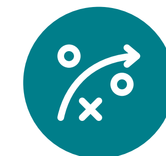
Royal London undertakes active engagement through Royal London Asset Management and collaboration with other investors. We focus our efforts on key high-carbon industries (e.g. utilities) and engage with policy-makers to be an advocate for change, to protect our customers' standard of living, and the sustainability of our business model.

We lead and participate in various forums, which are detailed in the table below. One of the most important pieces of work we participated in during 2021 was the development of the Association of British Insurers (ABI) Climate Roadmap which identified the potential constraints the industry faces to unlock investment in the transition to net zero.

We support the development of new funds such as those being considered by the UK Treasury through its Long-Term Asset Fund initiative. However, the development of new financial products alone will not be sufficient. We contributed to the work of the Climate and Financial Risk Forum (CFRF) Innovation Working Group. This piece of work found that there needs to be a corresponding evolution in how investors make capital allocation decisions to mobilise financial capital. It also needs to be at a scale and speed not previously seen to deliver solutions and place-based investments that enable the transition of real economy systems – energy, buildings, transport, land use, and industry.

Organisation	Role	Key publications in 2021
Investment Association (IA)	Sustainability Committee member Participant in climate change working group	Guidance on sustainable fund standards
Association of British Insurers (ABI)	Participant in climate change steering and working groups	ABI Climate Roadmap
The Institutional Investors Group on Climate Change (IIGCC)	Working group lead for the development of the Net Zero Investment Framework Utilities sector working group (co-chair)	Paris Aligned Investor Initiative Global Sector Strategies: Investor Interventions to accelerate Net Zero Electric Utilities
British Standards Institute (BSI)	Sponsor and steering group member for the development of sustainable fund standards	Sustainable Standards Finance Programme
Climate Financial Risk Forum (CFRF)	Innovation working group participant Disclosure working group participant	FCA Climate Financial Risk Forum
Financing a Just Transition Alliance (FJTA)	Member and lead of investor engagement with the utilities sector	FJTA Just Zero Report 2021

The IIGCC is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. It has more than 375 members across 23 countries, with over €51 trillion in assets under management. Royal London are founding signatories to the IIGCC Net Zero Investment Framework and our Portfolio Emissions targets were set in accordance with its requirements.



Utilities sector engagement

Royal London Asset Management is a large investor in the energy utilities sector, which brings power into our homes and workplaces. The sector has a critical role in decarbonising the economy by shifting away from fossil fuels towards green electrification.

During 2021, in partnership with Friends Provident Foundation, we continued active discussions with a number of utility companies about the trends transforming the power sector. While most were already working on decarbonisation plans, the majority had not yet established specific approaches to addressing the social implications of their decarbonisation efforts. To remedy this we asked companies to publish a Just Transition plan ahead of COP26. SSE published their plan in 2020 and five more companies responded in 2021:

- March 2021: E.ON published a section on Just Transition in its climate transition plan.
- August 2021: National Grid committed to addressing the Just Transition in its Responsible Business Charter.
- September 2021: Centrica published its Just Transition plan.
- October 2021: EDF published its Just Transition plan.
- November 2021: Scottish Power published its Just Transition plan.

Regulator engagement

To support policy development and regulatory interventions amongst asset owners and asset managers, we engage directly with regulators.

Over 2021

- We responded to the FCA's Discussion Paper on Sustainability Disclosure Requirements (SDR) and Investment Labels, both directly and indirectly by supporting responses from the ABI and the UK Sustainable Investment and Finance Association. This paper focused on proposals for SDR and investment labels and included reference to the development of sustainability-based rules for advisers.
- The Financial Conduct Authority (FCA) is introducing a new 'Consumer Duty' for financial services companies in 2022. It will raise the expectations on how products are designed and how services are delivered to customers. Royal London has advocated that this should include a new duty on firms to invest responsibly on their customers' behalf, so the investments we make also help improve the environment we all live in.

Through our involvement with the ABI, we will continue to influence the Prudential Regulation Authority (PRA) and other regulators, to help effectively mitigate climate risks across the economy and maximise the opportunity to support the wider systemic shift to a low-carbon economy.

Changemakers

In 2021, we launched our Changemakers programme. The programme focuses on creating and investing in social enterprises that are building financial resilience for the most financially vulnerable across the UK and Ireland, and exploring ideas and innovations to enable a Just Transition to net zero.

Working closely alongside our expert partners Year Here and School for Social Entrepreneurs (SSE), our Changemakers programme is finding innovative ways to drive change. There are two stages to the programme. The first stage is Bold Ideas, which selects and supports at least ten aspiring individuals each year, and together with Year Here helps them to gain insights and test and build new ideas. We then work collaboratively to explore unmet needs and pioneer innovative solutions.

During the second stage, Scaling Up, we will select existing social enterprises focused on helping their communities develop financial resilience, in partnership with SSE. Our role is to support these enterprises in growing their businesses and ideas to reach a wider audience. They will each receive funding and two years of support to scale and grow their business. In 2021, our advisory panel selected our first ten Changemakers from over 70 applications. The panel includes two experts with 'lived experience' which provides an invaluable perspective from those who have personally experienced financial hardship.

The value of our customers' pensions in retirement is determined not only by how much they save and how much their investment grows, but also by the environment into which they retire.

Metrics and targets

This section focuses on measuring progress over 2021 against our climate targets detailed on page 7. It details the metrics we plan to use when tracking exposure to climate-related risks, acknowledging that these are likely to evolve over time as data quality and availability improve.

The influence of policy makers

As COP26 has shown, governments and regulators have a critical role to play in unlocking the market's potential and scaling opportunities for institutional investment. Our commitments are based on the expectation that governments and policy-makers will deliver on their commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations.

The basis and assumptions underpinning our targets are set out in detail on page 8.

2021 carbon metrics

Portfolio metrics

Our 2021 portfolio emissions are shown in the table below against our baseline year, 2020.

In assessing our progress against our portfolio emissions targets, we measure both:

- real-world emissions reductions, achieved by the companies across our investment portfolios; and
- the impact of our investment decisions, including decisions made directly by our asset managers.

During 2021 our internal assets increased from £114bn to £124bn. Despite the increase in assets the carbon emissions (tCO2e) from our equity and corporate fixed income portfolios reduced by 26% and the carbon emissions per £m invested reduced by 35%.

This reduction is a combination of reductions made by the companies we invest in (24%) and changes we have made to our portfolio composition (11%).

Whilst the reductions are positive there are material constraints in the collection of data and the asset class coverage. In addition, company emissions will have been impacted by the economic effect of Covid-19. As a result we expect to see both total carbon emissions and emissions per £m invested fluctuate over time, albeit with a downward trajectory.

Our 2021 portfolio emissions are shown in the table below against our baseline year, 2020.

	Year ended 2021	Year ended 2020	**Year-on-year change[b]**	Year-on-year change company decarbonisation[c]	Year-on-year change portfolio composition[d]
Royal London AUM (£bn)[a]	124	114	8%		
Corporate Fixed Income (CFI) & Listed Equity (LE) (£bn)	78	70	11%		
MSCI carbon metrics for CFI & LE					
Carbon emissions (tCO_2e^e/$[f] m Invested)	67	103	-35%	-24%	-11%
Total carbon emissions ($MtCO_2e$)[e]	6.9	9.3	-26%		
Carbon intensity (tCO_2e^e/$m Sales)	116	122	-5%		
Weighted average carbon intensity (tCO_2e^e/$m Sales)	104	117	-11%		
Data Coverage Metrics					
Asset class coverage	63%	63%	-		
MSCI data availability	70%	68%	3%		

a. Represents the overall amount of the Group's investments excluding assets managed on behalf of third parties and including assets of the Group's pension schemes.
b. Year-on-year change represents the percentage change in the Year ended 2021 metric from the Year ended 2020 metric.
c. Decarbonisation over 2021 had Royal London retained the exact portfolio of assets held at year end 2020. Indicates the impact of underlying companies' decarbonisation.
d. Balance of total decarbonisation over 2021, after allowing for company-level decarbonisation. Indicates the impact of Royal London portfolio adjustments.
e. tCO_2e represents estimated amount of emissions during the year, measured in metric tons of carbon dioxide equivalent. $MtCO_2e$ represents one million metric tonnes of carbon dioxide equivalent.
f. As MSCI tools generate results in $USD, the sales-weighted figures above have been stated in this currency. This aligns with industry practice, allowing for a more consistent comparison across our peers.
g. We use MSCI as our data provider; its methodology is available online at www.msci.com

Carbon metrics and what they mean:

To put some perspective on our portfolio emission numbers, the average personal carbon emissions from individuals in the UK is nearly 13 tonnes of CO_2e every year.

But what do we mean by CO_2e?

The world of climate metrics can seem complex, but it can be boiled down to this: measuring greenhouse gases (GHG).

The term 'GHG' covers many types of gases, so to make things simple and comparable across business and other polluters, we translate the climate impact of all GHG into a single measure: "Carbon Dioxide Equivalent" (CO_2e). For example, a gas twice as potent as Carbon Dioxide (from a climate impact perspective) is assigned 2 tonnes "CO_2e" for every 1 tonne emitted. When we discuss GHG, 'carbon', 'emissions', or 'footprint' then usually the CO_2e is our best absolute measure.

When considering businesses, this absolute measure is less useful. Between two equivalent companies, the larger will emit more CO_2e. But what if the larger company has lower emissions relative to its size? To assess this, we use 'Carbon Intensity'. This gives us a measure of 'emissions per unit', allowing for the company's size (units could be sales, revenue, total assets or market capitalisation). Using this approach we can more easily see whether the larger company has a lower carbon intensity despite having a larger absolute footprint.

Things get more complicated again when considering portfolios. With portfolio emissions, we face a dilemma: how to aggregate the Carbon Intensity of all companies and other securities represented in our portfolio into a single figure.

Imagine a portfolio of equities with 100 underlying companies. These companies vary in size considerably, so a simple average of their Carbon Intensities (with equal weighting across all 100 companies) may be misleading. So instead we use a measure called the 'Weighted Average Carbon Intensity' (WACI). This is a portfolio-level measure of Carbon Intensity that allows for each company's relative size, meaning it weights more heavily toward the largest companies. This measure can also be used to compare different asset classes, if using a consistent measure of size (e.g. market value).

Operational metrics

Our 2021 operational sustainability metrics are shown in the table below alongside our results from previous years.

Operational metrics and targets

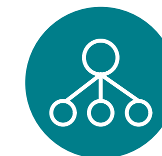
		2021a	2020a	2019a (baseline year)	Target
Scope 1 GHG emissions (tCO_2e)[b]		**453**	818	1,421	60% absolute reduction by 2025
Scope 2 GHG emissions (tCO_2e)[c]	Market-based	**93**	215	1,567	Purchase 100% renewable energy for electricity by 2025
	Location-based	**1,235**	1,502	1,895	
Scopes 1 and 2 GHG (market-based) per FTE[d] (tCO_2e)		**0.09**	0.18	0.60	
Scope 3 GHG (rail and air) emissions (tCO_2e)[e]	Total	**129**	289	1,901	Reduce business travel (rail and air) by 50% per FTE from 2021
	Per FTE	**0.02**	0.05	0.38	
Paper use[f]	Total (t)	**945**	927	1,111	
	Internal paper per policy (g)	**0.92**	0.58	6.07	Reduction of 90% per policy by 2025
	External paper per policy (g)	**114**	104	123	Reduction of 50% per policy by 2025
Waste (t)[g]	Total	**423**	378	727	Reduction of 50% per FTE by 2025 and continue to send zero waste to landfill
	Per FTE	**0.09**	0.08	0.15	
Water consumption (cubic metres)[g]	Total	**8,828**	19,313	31,916	Reduction of 15% per FTE by 2025
	Per FTE	**1**	3	6	

Streamlined energy and carbon reporting: operations and investment properties[h]

	2021	2020	2019 (baseline)
Scope 1 (tCO_2e)	**3,568**	3,689	4,554
Scope 2 (market-based) (tCO_2e)	**93**	215	1,567
Scope 2 (location-based) (tCO_2e)	**6,281**	7,126	10,540
Scopes 1 and 2 (market-based) emissions per sqm (tCO_2e)	**0.005**	0.005	0.013

a. Our absolute Scope 1 and Scope 2 emissions for 2021 shown in the operational metrics table have been assured by ERM CVS, an independent external assurance provider, to a Limited level of assurance. This assurance included a review of activity data and the calculation of emissions from those activity data. Full details of the scope, activities, limitations and conclusions of ERM CVS's assurance engagement are included in its Assurance Statement at royallondon.com/climatechange. The 2019 baseline figures have been adjusted following review and further data becoming available. Police Mutual Assurance Society data is now included from acquisition in October 2020.
b. Reported Scope 1 emissions: covers emissions generated from the gas and oil used in buildings, emissions generated from Group-owned vehicles and company cars used for business travel, and fugitive emissions arising from the use of air-conditioning and chiller/refrigerant equipment.
c. Reported Scope 2 emissions: covers emissions generated from the use of electricity in buildings and has been calculated in accordance with GHG Protocol guidelines in both location-based and market-based methodologies.
d. Full-time equivalent.
e. Reported Scope 3 emissions: covers emissions generated from Group rail and air business travel. The 2019 baseline figures have been adjusted following review and further data becoming available. Data excludes Wealth Wizards.
f. Paper data is based on actual volumes from suppliers, where available, and estimations based on invoice data. The 2019 baselines figures and subsequent years have been updated to include envelopes and additional data becoming available. The data excludes Wealth Wizards.
g. Waste and water data is based on actual volumes, where available, estimations and invoice data. Data excludes Wealth Wizards and offices where provision is covered by service charge.
h. The operational reporting period is 1 January to 31 December however, the investment property reporting period is 1 October to 30 September, due to the timing of data availability.

Governance



The Board has ultimate responsibility for the way we manage our response to climate change. How we manage the risks and opportunities associated with climate change was a key topic for the Board and its committees during 2021.

The Group Executive Committee (GEC) is responsible for the overall management of climate change risks and opportunities.

The GEC is supported by the Group Sustainability Oversight Committee (GSOC), which is responsible for:

- supporting, overseeing and challenging the delivery of the product, investment and operational sustainability goals of the Royal London Group.
- providing clear direction ensuring alignment and transparency of delivery across the Royal London Group.
- enabling the Royal London Group to robustly demonstrate Management's role in assessing and managing climate-related risks and opportunities – a recommendation of the Task force on Climate-related Financial Disclosures (TCFD).
- providing support, challenge and recommendations, as required, to the GEC.

The GSOC oversees the Group Sustainability and Stewardship function, which is accountable for:

- providing oversight information on progress against climate targets, risk, and opportunity analysis;
- working with industry partners to influence wider action;
- providing subject-matter expertise across the Group;
- co-ordinating asset-owner stewardship activity; and
- sustainability disclosures.

The GSOC assessment of risks to delivery complements the embedding of climate-related risks across business units under our Risk Management Framework.

An Investment Committee oversees climate-related investment risks and a Risk & Control Committee oversees the management of non-investment climate-related risks.

The Board receives updates at least every six months on climate-related activities, in addition to their review of climate-related content within our Annual Report and Accounts.

The assessment and management of climate-related risks has been embedded across the Group under our standard risk management processes.

The Group Chief Risk Officer's quarterly report provides the Board with aggregated assessment of risks against appetite, including material climate-related risks where relevant, across our business areas and geographies, alongside an overall Group-level assessment.

Climate-related approvals during 2021

How we manage the risks and opportunities associated with climate change was a key topic for the Board and its committees during 2021. This included the approval of:

- group-wide climate targets;
- revisions to the Group Investment Philosophy and Beliefs;
- the Group climate risk appetite statement and associated performance metrics;
- The 2020 ORSA which included climate considerations;
- the incorporation of climate targets into executive remuneration

In addition:

- climate-related responsibilities were integrated into the Terms of References of the Investment Committee (IC) and Risk & Capital Committee (RCC)
- Risk and Capital Committee reviewed the analysis and recommendations arising from the Climate Biennial Exploratory Scenario analysis initiated by the Bank of England
- the formation of a Group Sustainability & Stewardship function from January 2022 was agreed

Risk management

Climate risk is complex, with significant uncertainty around the timing and severity of potential impacts. Effective risk management is fundamental to our Purpose, delivering our strategy, serving our customers and growing our business safely. We use our risk management system alongside our capital management framework to manage the significant risks we are exposed to, so that our business remains sustainable and continues to serve our customers.

As climate risk can manifest itself across any of our risk categories, climate crisis considerations have been integrated into our overall Risk Management System.

Climate risks – Physical and Transition

Climate-specific risks are typically grouped into two categories: Physical and Transition. We consider these risks across a numberof areas as shown in the table below:

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, storms or flooding
		Secondary	Knock-on effects of physical risks, such as falling 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 transition 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

Interdependencies between Physical and Transition risks

The analysis of Physical and Transition risks is complex, as these risks are interdependent and impact a wider world of potential risks over a range of time horizons. Climate risks and opportunities are similarly interdependent.

Climate-related risks and opportunities metrics

In 2021 we undertook a detailed analysis of our climate-related risk exposures as part of our ORSA submission (as detailed in the Strategy section previously). The table below summarises the qualitative outputs from this exercise, describing the climate-related risks and opportunities we consider the most material to our company.

As climate-related projections and modelling activities are undertaken without the ability to assign probability to different pathways and severities, detailed quantitative information on potential impacts has not been provided in the table below. We hope to provide this information over time as climate-related financial models improve and the future becomes more clear.

Risk category	Risk impact	Sub-category	Potential impact
Strategic	Transition	Policy	Government or Regulatory policy/requirements on climate change impacts the viability of our propositions.
		Market	Loss of market share if we fail to develop new propositions or modify existing ones to reflect growing demand for products which are perceived to have a positive (or neutral) impact on combating climate change.
		Reputation	Reputational damage to our brand.
Investment	Transition	Policy	Action from governments and regulators to meet the Paris Agreement targets and respond to public sentiment may lead to reduced values of some companies in which we invest.
		Market	The emergence of disruptive green technologies and changing consumer behaviours.
	Physical	Primary	The Group's investment portfolios contain significant direct investments in physical assets including property and asset-backed securities.
		Secondary	The indirect physical effects of climate change which include supply chain disruption, migration, political instability or conflict.
Insurance	Physical	Primary	An increase in average UK/Irish temperatures resulting in less predictable and more extreme temperature fluctuations that lead to reduction in life expectancy.
		Secondary	A risk that temperature changes increase the level of infectious diseases globally.
		Secondary	Falling crop yields, resource shortages, migration, political instability or conflict, with negative effects on lifestyles in the UK and Ireland, for example poorer diets and lower tax revenues to support the NHS. This results in lower life expectancy and an increase in morbidity risk.
Operational	Physical	Primary	Business disruption through more extreme weather including flooding and stronger storms. Consideration of our own office/ data centre locations, those of key suppliers and disruptions which could impact communications between locations.
	Transition	Market	Failure to retain and attract the skills we need as a result of not taking the necessary action to protect our reputation and to adapt ways of working as the UK transitions to a lower carbon economy.

Opportunity category	Opportunity impact	Sub-category	Potential impact
Insurance	Transition	Primary	Mortality rates could reduce in the event of a successful transition to a low carbon economy. This would reduce lapse, mortality and morbidity risks, in turn lowering our liabilities and capital requirements.
Strategic	Transition	Market	Positive impact on market share as a result of successful development of new propositions or modified existing ones to meet the growing demand for products which are perceived to have positive (or neutral) impact on combating climate change.

* (short: 1 year; medium: up to 5 years; long term: longer than 5 years)

We have continued to integrate climate change into our risk management system. This includes developing a climate risk appetite statement within the Group's risk appetite framework and metrics for monitoring progress against climate targets in line with the new risk appetite statement.

Our climate risk appetite defines the level of risk we are willing to take, including consideration of existing and emerging regulatory requirements.

Robust governance, with the Board and its Committees overseeing the work of all three lines of defence, is critical to our approach. Our structure is designed to support us in managing risk in changing economic, political and market environments. We have a formal governance structure of committees to oversee risk reporting to the Board. Accountabilities are defined and managed in line with the Senior Managers & Certification Regime requirements.

Our risk management processes

Our framework drives consistent risk management activities across the business and management of risks within the agreed risk appetite.

This process is owned by and integrated into individual business units across our long-term savings, protection, and asset management businesses in the UK and Ireland. With support from our Risk function, 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.

Monitoring our asset managers

As an asset owner we are exposed to climate risks through our asset managers. Under our asset manager monitoring framework we monitor and assess our asset managers' responsible investing activity and performance, ensuring that the framework's principles are put into practice. As part of our commitment we require:

- our asset managers to develop a climate risk policy consistent with our Climate Change Framework.
- our asset managers to exercise their voting rights on all eligible investments, and make sure their voting takes into consideration the principles of our Climate Change Framework.
- our asset managers to set clear investor engagement priorities on climate change, taking into consideration their level of influence (the size of their investments), and the materiality of climate change to company risk and performance.
- our asset managers to demonstrate a divestment process, including the criteria they would use to trigger a divestment of holdings if the climate change associated risk can no longer be justified, and engagement activity has been exhausted.

Glossary of terms

Term	Definition
Asset Owner	An institution (or individual) that owns assets but entrusts day to day investment decisions to Asset Managers typically supported by detailed mandates and policies.
Carbon Neutral	Carbon neutral is when an organisation is purchasing carbon credits that are equivalent to their emissions released into the atmosphere. The need to reduce emissions is optional for the organisation. In practice, 'Carbon Neutral' is often used interchangeably with 'Net Zero'.
Carbon Offsetting	Carbon removed from the atmosphere or avoided from being released into the atmosphere that is verified and validated by an independent standard. Carbon offsets should lead to less carbon in the atmosphere and are most typically used to take responsibility for unavoidable emissions.
ESG Factors	Environmental, Social and Governance Factors. These provide a quantitative assessment of a company's risk exposure to under these three categories.
Net Zero	Net Zero is achieved when an organisation reduces the majority of their Greenhouse Gas (GHG) emissions in line with latest climate science, and offsets the remaining hard-to-abate residual emissions using carbon removal credits. In practice, 'Net Zero' is often used interchangeably with 'Carbon Neutral'.
Operational Emissions	Our operational Scope 1, Scope 2 and and Scope 3 (rail and air only) Greenhouse Gas (GHG) emissions.
ORSA	"Own Risk and Solvency Assessment" - an exercise carried out by insurers subject to the EIOPA Solvency II regulations (or equivalent regime e.g. under the Prudential Regulatory Authority within the UK). ORSA submissions assess the adequacy of the insurer's current and future solvency position and risk management position under stressed scenarios.
Our Commitments	**Portfolio emissions:** We have committed to reduce the emissions from our investment portfolio by 50% by 2030 as part of the transition to net zero by 2050. The portfolio emissions targets we have set include assets that are controlled by the Royal London Mutual Insurance Society Limited and are managed on its behalf by Royal London Asset Management. This includes the regulated investment funds managed by Royal London Asset Management. It excludes segregated mandates managed by Royal London Asset Management on behalf of its external clients. **Climate solutions:** As a Group we commit to developing solutions that will enable our customers to invest in the low-carbon transition. RLAM will transition core elements of its fund range to sustainable objectives. **Engagement:** We will engage with the utilities sector and our top ten carbon emitters on the need for a Just Transition plan. When appropriate, we will consider divesting from companies which are unwilling or unable to put in place a credible net zero strategy. **Operational:** Achieve net zero direct operational emissions by 2030 (Scopes 1 and 2). Our climate targets are based on the expectation that governments and policy-makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and that the actions we take do not contravene Royal London's fiduciary duties. Further detail on the basis and assumptions underpinning our targets are set out on page 8.
Portfolio Emissions	Emissions from the companies in which we invest. That is, Scope 1, Scope 2 and Scope 3 emissions of the investee companies represented within our asset portfolio. We share influence over these companies through equity and corporate debt instruments and are therefore accountable for a portion of their total emissions.
Physical Risks	Risks directly or indirectly related to the physical impacts of climate change
RLMIS / Royal London	The Royal London Mutual Insurance Society Limited
Scope 1 Emissions	Greenhouse Gas (GHG) emissions directly resulting from our business activities, e.g. from company cars and direct emissions from air conditioning units.
Scope 2 Emissions	Indirect Greenhouse Gas (GHG) emissions through our energy consumption, e.g. resulting from fossil fuels burned to produce the electricity used to provide heat, light and power technology within our offices.
Scope 3 Emissions	All other Greenhouse Gas (GHG) emissions indirectly produced as a result of our business activities. This category includes GHG emissions from our value chain and the entirety of our Portfolio Emissions.
Stewardship	The PRI defines stewardship as "the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend."
Transition Risks	Risks related to market adjustments resulting from the transition to a low carbon economy