

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”)

The Sustainable Finance Disclosure Regulation ("SFDR") is a key element of the Sustainable Finance Action Plan launched by the European Commission in March 2018. The SFDR introduces rules on disclosures relating to sustainable investments and sustainability risks, some of which are deemed applicable to Royal London Insurance DAC (the Company).

In line with SFDR, the purpose of this note is to outline our approach and rationale to:

- The incorporation of “sustainability risks” in investment decision making processes;
- The consideration of “principal adverse impacts” in investment decisions; and
- The integration of “sustainability risks” in our remuneration policies.

For the purposes of the SFDR:

- A “sustainability risk” means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.
- “Sustainability factors” means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
- “Principal adverse impacts” should be understood as those impacts of investment decisions and advice that result in negative effects on sustainability factors.

How does Royal London Ireland practice Responsible Investment?

We believe our asset managers are best placed to understand the importance and impact of ESG factors across our investments in order to help improve customer outcomes.

Our role is to pick the asset managers we believe are best aligned with our investment principles. We believe deciding not only how we invest but who we choose to work with puts us in the best position to do what’s right for our customers.

How does Royal London Ireland select and monitor its asset managers?



Responsible selection

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



Appointment

We'll make sure all our Responsible Investment principles are known to all our asset managers, and we'll only choose to work with the ones who are already working on putting these principles into practice.

Our aim to generate good returns whilst also making a positive contribution to our society and environment. To help us achieve this aim, we have three key investment beliefs in place:

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



Monitoring and reporting

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

What is the Sustainable Finance Disclosure Regulation (SFDR)?

Sustainable Finance Disclosure Regulation (SFDR) is part of new European regulation for financial services participants. It aims to provide more transparency on sustainability in financial markets and comparability in this regard between different funds. Environment, Social and Governance (ESG) are three key factors when measuring the sustainability and ethical impact of companies and businesses that Royal London funds invest in.

Who does it apply to?

The SFDR will require certain firms like insurance companies to comply with new rules on disclosure regarding sustainable investments and sustainability risks.

What does it aim to do?

The SFDR aims to increase the transparency with which affected financial market participants and financial advisers integrate sustainability risks in their investment decisions and investment or insurance advice and products.

The SFDR requires investment funds marketed to the EU to be categorised as one of the following:

Article 9 Funds

Funds that have sustainable investment as their objective.

Article 8 Funds

Funds that promote environmental or social characteristics.

Article 6 Funds

Funds that do not purport to promote any kind of ESG objective.

These categories are decided based on the extent to which ESG or sustainability characteristics are integrated.

What is the likely impact of sustainability risks on fund returns?

Every fund is exposed to some degree of sustainability risks. If a sustainability risk materialises, the impact on the fund would depend on how the event impacts on the price of the asset (for example bond, equity, property or cash) that the fund invests in. A fund diversified across multiple asset classes and regions will lower the potential adverse impact on the return if a sustainable event materialises.

Principal adverse impacts of investment decisions

We have taken a proactive approach to the implementation of SFDR which necessitates the sustainable classification for EU-domiciled funds and we are working with our Asset Managers through considerations on the taxonomy and principle adverse impacts (PAIs).

We work with our asset managers to disclose whether we consider PAIs within our investment decision making process (these are impacts of investment decisions that result in negative effects on sustainability factors).

Specifically, we provide the following information on our approach to integrating PAIs and ESG risks:

- Information on identification.
- Description of these impacts and any action taken.
- A summary of engagement policies.
- A reference to responsible business conduct codes and internationally recognised standards for due diligence.
- We publish on our website information about our policies on the integration of sustainability risks in our investment decision making process.
- In our remuneration policy, we include information on how the policies are consistent with the integration of risk management (which includes sustainability risks).
- We ensure our ESG messaging across all our sales and marketing materials is consistent.

Sustainability Risk Integration

The Company's approach to remuneration setting and oversight is to align with the Remuneration Policy of Royal London Group, of which it is a part. The key remuneration related principles employed by the Company include:

- Aligning incentive schemes to drive behaviours consistent with the Company's purpose, culture, values and strategy.
- Aligning employees' and executives' interest with those of the Company's policyholders and customers.
- Supporting the delivery of the Company strategy, whilst ensuring adherence to the Company's risk appetite.
- Ensuring fair outcomes for our people and policyholders.

The overall remuneration structure is comprised of components designed to achieve a careful balance between providing competitive salary and benefits, and motivational incentives to drive performance and the appropriate management of risk. One such component is a variable award to employees, for which targets are annually defined, and include the achievement of sustainability objectives aligned with the Company's Board-approved Climate and ESG Strategy.

For the year 2022, these objectives included the maintenance of net zero Scope 1 and 2 emissions (with appropriate offsets), development of a fund range for the pension proposition with a strong ESG focus, and development of processes and data feeds to enable tracking of the Company's Scope 3 operational and non-operational (ie investment) emissions profile.

What Royal London funds currently promote environmental, social and governance (ESG) characteristics?

Under SFDR investment funds which promote ESG characteristics must be identified, and certain information made available. Below we detail the funds we have available which promote ESG characteristics and access to further information on these funds are available on our investment manager websites.

Fund Name:

Classification

RL Global Sustainable Equity Fund

Article 9

RL Global Sustainable Credit Fund

Article 9

RL European Sustainable Credit Fund	Article 9
RL Global Equity Diversified Fund	Article 8
RL BlackRock Euro Environmentally Aware Cash Fund	Article 8

In relation to other funds in our offering they are currently classified as not promoting ESG characteristics under SRDR regulation.

Investment Management Websites

- [Sustainable Finance Disclosure Regulation \(SFDR\) | Institutional | RLAM](#)
- [Understanding sustainable investing regulation | BlackRock](#)

Ends.

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