

Rothestay
Protecting Pensions

Climate Report 2023



Our purpose

We are dedicated to securing the future for every one of our policyholders.

➤ In this report

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➤ Other relevant documents

There are a number of other related documents which can be found on our website www.rothestay.com:

Sustainability Report
Stewardship Code
Responsible Investment and Stewardship Policy



About Rothesay

Purpose-built
to protect
pension
schemes and
their members'
pensions

Over
£60bn
managed assets

Who we are

Rothesay is the UK's largest pensions insurance specialist, purpose-built to protect pension schemes and their members' pensions. Our singular focus is to secure pension annuities for the future, providing certainty as well as service excellence for our policyholders.

Rothesay is dedicated to providing excellence in customer service alongside prudent underwriting, a conservative investment strategy and the careful management of risk. We are trusted by the pension schemes of some of the UK's best known companies to provide pension solutions, including British Airways, Cadbury's, the Civil Aviation Authority, the Co-operative Group, National Grid, Morrisons and Telnet.

The pension risk transfer industry is currently very active, with high interest rates allowing more companies to insure their pension risk. This means that our business is on a strong growth path, adding £12.7 billion of new pension liabilities during 2023, increasing permanent employees by 16% to 460, and growing our international offices.

We are an asset owner, managing our investments in-house which allows us to proactively manage the composition of our investment portfolio. As a pension insurer, we may receive assets as part of a pension risk transfer transaction. On receipt of these positions, the assets are managed according to the same principles and processes as the investments we originate. We can diversify exposures across and within sectors, controlling position sizes through limits, and regular monitoring and oversight of investments. For more liquid investments, we can actively reduce exposure where we have credit or other concerns. Underpinned by sophisticated risk management, our expert in-house investment team is continually developing new ways to drive predictable, dependable returns that minimise risk and create real security.

Today, we manage over £60 billion in assets, secure the pensions of over 930,000 people, and pay out, on average, over £200 million in pension payments each month. We are safeguarding the future for every one of our clients and policyholders, and providing long-term value to our shareholders.

Climate and our purpose

At Rothesay, thinking long-term is central to our purpose and we understand the clear link between our core investment objectives and the need to consider climate impacts.

Our long-term approach and in-house asset management supports our ability to consistently identify and manage global climate risk exposure within our investment portfolio. Our approach to the management of these risks and broader considerations allows us to not only achieve our primary goal of providing pension security to our policyholders, but also provide wider benefits to our stakeholders, the environment and society.

Climate considerations affect all areas of our business. Our approach to the management of climate risk is therefore to ensure climate considerations are not confined to just one team. Rather, we ensure the appropriate knowledge, experience and responsibilities are in place across our business to effectively assess climate-related risks and opportunities.

We are a growing business and must therefore acknowledge that the absolute carbon footprint of our investments is likely to grow. Our target setting must consequently be linked to intensity measures and other metrics independent of portfolio size.

Message from the CEO



It is important to supplement our plans to reduce emissions across our portfolio with action to support greater investment in the types of infrastructure which will be necessary to achieve the transition to a low carbon economy.



Message from the CEO continued

Rothsay's non-financial Environmental, Social and Governance (ESG) reporting is covered by two separate publications: this Climate Report, which has been drafted in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and a Sustainability Report which summarises our business's wider sustainability progress. We strive to be transparent in our approach and ensure the analysis we publish is clear and as comprehensive as possible. The two reports are published in close proximity to one another and together provide a detailed account of our approach to embedding sustainability principles across our business along with updates on our progress in meeting our various sustainability-related targets.

As confirmed by the Met Office, with a global average temperature of 1.46°C above pre-industrial levels, 2023 was the warmest year on average over the globe since records began. Since June 2023, monthly global average temperatures remained at record levels and ocean temperatures also reached record temperatures. While a single year may be anomalous in the context of a long-term average, and there has been a huge effort from nation states and companies across the world to reduce greenhouse gas emissions, it is clear that actions will need to be further strengthened.

For this reason, in this report, we have published some new short-term priorities identified through our transition planning process. These have been added to support our overall target of transitioning our investment portfolio to Net Zero greenhouse gas emissions by 2050 by providing new, more near-term milestones which will need to be reached along our Pathway to Net Zero. Central to these is a new commitment to achieving a 50% Carbon Intensity (CI) reduction across our total investment portfolio by 2030, building on our target, introduced last year, to see a similar reduction across our publicly traded corporate debt portfolio.

Fundamental to achieving our long-term goals will be developing our ability, in accordance with accepted practice, to assign 1.5°C aligned carbon budgets to issuers or sectors and then judging the degree to which they may be over or underachieved. This is because the amounts by which carbon budgets are exceeded will be almost directly proportional to the amount by which the temperature will ultimately exceed our target. Further information on our work in this area will be published in our formal Transition Plan.

It is important to supplement our plans to reduce emissions across our portfolio with action to support greater investment in the types of infrastructure which will be necessary to achieve the transition to a low carbon economy. The pension risk transfer industry has witnessed unprecedented growth in market volumes recently, with 2023 the biggest year yet in the history of the market, and there is a very substantial new business pipeline for 2024. As we continue to capitalise on the significant opportunities we are seeing in the market, an important strategic objective is ensuring that we make meaningful deployment of the corresponding premiums into productive assets such as those generating low carbon electricity. We don't just need to replace existing fossil fuel generation; we also need to add the additional infrastructure capacity to, for instance, ensure we can effectively electrify transportation along with many industrial processes too.

To ensure the highest levels of transparency in achieving our commitments, we are also continuing to develop the breadth and depth of our climate disclosure capabilities. This includes an attribution of the factors supporting this year's reduction in Carbon Intensity, noting that as things stand, at year end 2023, our estimate is that the Carbon Intensity of the portfolio is lower by 39% than the estimate we made for year-end 2019.

We did not anticipate when we set the targets that reduced emissions would not be the only driver of this decline. Instead, while emissions have come down for our issuers, this has occurred within a wider backdrop of increased levels of inflation and consequentially higher revenues which has had a more pronounced effect on the Carbon Intensity than we had expected. We also proactively consider climate metrics, in tandem with financial risk and return, in our investment strategy, the outcome of which has helped decarbonise the portfolio this year. We note, however, that as our business, and hence the volume of assets we manage, grows at a pace that outstrips the decarbonisation rate of the economy, we should not be surprised to see the associated absolute level of emissions rise, as they did this year, despite declining intensity metrics.

We are pleased that we have been re-accepted as a signatory of the UK Stewardship Code 2020 and we are committed to building our understanding and capabilities in the wider areas of biodiversity and "ecosystem service". Two years after publication of the Dasgupta Review, 2023 was the year in which the words "nature" and "biodiversity" became ubiquitous in corporate reporting, though the words themselves do not necessarily convey the most important consequences for financial firms such as ours. While most of this report is devoted to our activity to address excess emissions, you will also find our initial review of the risks posed to our portfolio by overexploitation of other ecosystem services such as provision and purification of water, or provision of plants for food and the corresponding impact from land use.

I hope you find our Climate Report interesting and informative.



Tom Pearce
CEO

20 June 2024

Highlights



Highlights continued

We have continued to engage Grant Thornton to provide assurance over a selection of our climate metrics.¹

Re-accepted as a signatory of the UK Stewardship Code 2020

Initiated review of nature risks within our portfolio

Portfolio Carbon Intensity continues to decline

Continue to enhance our capabilities in climate risk management and reporting

Ongoing engagement with the most material climate issuers in our portfolio and expansion of this activity to include our most material suppliers

Became a signatory of the A4S Sustainability Principles Charter for the Bulk Annuity Process

Added a target for a **50%** Carbon Intensity reduction across our total portfolio by 2030
(vs our 2020 baseline)

Maintained CarbonNeutral[®] company certification

1. Full details can be found in the Independent Limited Assurance Report on page 73-74 of this document.

Our climate pillars

At Rothesay, we seek to protect the future of every one of our policyholders and to provide them with long-term financial security.

An essential part of our promise is the responsibility to carefully manage a wide range of uncertain risks and opportunities relating to climate and wider sustainability factors. In this report, we discuss how we embed our climate strategy around three key pillars: investing our capital responsibly, engaging to facilitate change, and running a responsible and sustainable business.



Our climate pillars continued

Invest:

Investing our capital responsibly

- Supporting real economy decarbonisation while reducing portfolio emissions in line with targets
- Reflecting material risks in our position statements
- Financing climate solutions
- Modelling and managing the risks associated with climate change

➤ See page 24

Engage:

Engaging to support positive change

- Engaging with our customers to understand their climate and sustainability priorities
- Engaging with issuers to enhance climate and nature risk management
- Engaging with our supply chain to strengthen climate risk management
- Working with regulators, industry bodies and policymakers to support climate progress
- Facilitating expansion of climate and sustainability practices across our workforce

➤ See page 31

Operate:

Running a responsible and sustainable business

- Minimising and managing the emissions within our own operations
- Accounting for emissions within our supply chain
- Creating data and reporting infrastructure to support climate resilience
- Maintaining effective and insightful governance across all business risks

➤ See page 37



There are strong connections between these pillars.

For example, the outputs of the engagement pillar inform our strategic position, helping us to identify priority actions and targets for our business operations and especially our investments. We regularly measure our progress and direct our efforts to support outcomes which benefit our stakeholder community. In line with our stated commitments, this helps to reduce both the risks posed to our portfolio and the risk our portfolio poses to the environment.

Our Pathway to Net Zero

By 2050, Rothesai intends to have transitioned its investment portfolio to Net Zero¹

That transition includes setting out public targets and commitments to indicate how we intend to reach our goals. We also maintain a public Responsible Investment and Stewardship Policy which outlines our investment strategy including any climate-related exclusions, such as the financing of new thermal coal. That document is regularly updated to reflect evolving best practice and to ensure we are in the best position to protect our policyholders and manage our long-term sustainability and climate commitments.

We are working on a Transition Plan to provide further guidance on actions to support our Net Zero goals, and have included a summary of priorities in this Climate Report.

¹ Our Net Zero commitment is science-aligned, focusing on taking actions that are consistent with the Paris Agreement's long-term goal of limiting global warming to 1.5°C above pre-industrial levels.



Our Pathway to Net Zero continued

While our transition planning considers portfolio emissions over the long term, our actions are inevitably concentrated on the near-term priorities which will support progress towards understanding and responding to the challenges, where our work can sensibly be planned in detail and outcomes measured.

Our earliest climate-related assessment identified physical, transition and liability risks across the portfolio, as well as noting potential opportunities. As a result, we have formalised our climate strategy into three actionable pillars: Invest, Engage and Operate.

We have sought to understand the transition risk of our portfolio by measuring current emissions, projecting future emissions trajectories, and considering how to incorporate their consequences within our risk-return

assessments, and hence in our portfolio positioning and selection of issuers with whom engagement is most urgent. As climate metrics have matured, we have introduced new metrics and now report a range of metrics including Carbon Intensity, Financed Emissions temperature alignment and Science Based Targets Initiative (SBTi) alignment of our publicly traded corporate debt portfolio. We believe it is important to disclose a number of climate metrics; given that whilst each metric has its individual merits, to gain a full understanding of the risks and opportunities that climate change may have on our activities, a range of datapoints is required.

We continue to supplement our qualitative findings with quantitative assessments where possible, especially for climate scenario analysis and physical risk.

Our Sustainability Committee draws representatives from across the firm's business units, including Trading, Investing, Risk, Compliance and Finance. We believe all our employees can contribute to our Net Zero and sustainability strategy, so we have established sustainability-related training for all employees and our annual performance review provides space for individuals to describe their activities.

To support our progress, we have partnered with several organisations aligned with our climate goals. These include the Principles for Responsible Investment (PRI) and the UN convened Net-Zero Asset Owner Alliance (NZAOA). We are also a supporter of the Taskforce for Climate-related Financial Disclosures (TCFD) and a member of the Bank of England's Climate Financial Risk Forum.

Our targets

Net Zero
by 2050

Rothesay is committed to transitioning our investment portfolio to Net Zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5°C above pre-industrial levels as outlined in the Paris Agreement.

20% CI
reduction
by 2025

We aim to reduce the Scope 1 & 2 Carbon Intensity of our total portfolio by 20% over the five years beginning with the baseline set in 2020. We also aim to reduce the Scope 1 & 2 Carbon Intensity of our publicly traded corporate debt portfolio by 20% over the same timeframe.

50% CI
reduction
by 2030

We aim to reduce the Scope 1 & 2 Carbon Intensity of our total portfolio by 50% by 2030, with a baseline set in 2020. We also aim to reduce the Scope 1 & 2 Carbon Intensity of our publicly traded corporate debt (PTCD) portfolio by 50% over the same timeframe.

Engage
with high
emitters

Rothesay is committed to engage with at least 20 of our climate material issuers each year.

Our Pathway to Net Zero continued

These targets inform our strategy and allow us to measure progress in the short term towards longer-term goals. Further information around our strategic response to these targets is detailed in the Strategy section, while we provide some more detail on near-term priorities for our Net Zero transition on page 12.



Portfolio Emissions

- The most material source of emissions associated with our business is related to our investment portfolio. We therefore pay great attention to understanding the carbon emissions of issuers within our portfolio and assessing their alignment with 1.5°C scenarios.
- No single metric is perfect for measuring the progressive decarbonisation that is supported by our portfolio and all have their drawbacks. Carbon Intensity is the current basis for our targets but can be flattered as revenues grow with inflation.
- Financed Emissions are perhaps more intuitive but still have dependence on market factors such as interest rates and foreign exchange while portfolio temperature alignment sounds ideal but depends heavily on a somewhat subjective allocation of the global carbon budget and assumptions about companies' ability to meet their share of it.
- We have committed to regular and transparent reporting and a detailed examination of these results is provided in the Metrics and targets section of this report.



Our Own Emissions

- Rothesay has fully embedded climate risk management into our business and processes.
- All electricity provided to our UK office comes from a supplier of 100% renewable electricity as certified by the Carbon Trust and we have employee benefits in place to support the reduction of their emissions (e.g. electric vehicle and cycle to work schemes).
- We are a growing business, including building teams in the US and Australia in recent years. Our direct emissions are growing as our headcount rises and flights increase from a COVID-19 impacted low base. We use verified offsets to compensate for the emissions output of all our flights.
- We aim to maintain CarbonNeutral® company certification (first achieved for 2020) with respect to our own business's Scope 1 & 2 emissions in accordance with the CarbonNeutral Protocol. This activity prioritises managing emissions appropriately as we grow, with residual emissions offset.
- We have contracted to utilise carbon offsets with a focus on permanence for future emissions, using the Direct Air Capture technology of Climeworks. Further information on the work the firm has done to purchase high quality voluntary carbon offsets is provided on page 38.

Our Pathway to Net Zero timeline

2020

2021

2022

2023

2025

2030

2050

- Became signatory of the UN Principles for Responsible Investment.
- Registered support for Task Force on Climate-related Financial Disclosures.
- Launch of electric car leasing employee benefit.

- Published first ESG Report, including our Pathway to Net Zero.
- Published Responsible Investment Policy.
- Published first Streamlined Energy & Carbon Reporting (SECR) disclosures.
- Joined as a member of the Net-Zero Asset Owner Alliance.
- UK office is supplied by 100% renewable electricity.
- Received CarbonNeutral® company certification for 2020 in accordance with The CarbonNeutral Protocol.

- Retained CarbonNeutral® company certification for 2021 in accordance with The CarbonNeutral Protocol.
- Entered into a 10-year agreement with Climeworks to remove our 2021–2030 expected unavoidable CO₂ emissions.
- Invited to membership of the Climate Financial Risk Forum.

- Retained CarbonNeutral® company certification for 2022.
- Obtained external limited assurance for selected material 2022 climate data.
- Accepted as signatory of UK Stewardship Code 2020.
- Developed scenarios designed to examine the most extreme consequences of climate change for longevity and hence our insurance liabilities.
- Undertook analysis of Supply Chain emissions.
- Added 2030 target for our Corporates portfolio.

- 20% reduction in the Carbon Intensity of our publicly traded corporate debt.
- 20% reduction in the Carbon Intensity of our total portfolio.

- 50% reduction in the Carbon Intensity of our publicly traded corporate debt.
- 50% reduction in the Carbon Intensity of our total portfolio.


- Net Zero investment portfolio with respect to greenhouse gas emissions.



Our Pathway to Net Zero continued

Near-term priorities within our Transition Plan

We have started more detailed planning for our Net Zero transition. This involves modelling the different potential decarbonisation pathways of our investments, and identifying the key actions which support our goals. The table below summarises these current goals and priorities.

Stated goals	Net Zero by 2050 for our investment portfolio	Reduce portfolio Carbon Intensity by 50% by 2030 (vs. 2020 base year)	Manage our investment portfolio to align with maximum temperature rise of 1.5°C	Engage with issuers with greatest climate impacts	Carbon Neutral for direct operations (true since 2022)
Pillars Near-term priorities 	Invest			Engage	Operate
	<ul style="list-style-type: none"> • Manage investment portfolio to meet our short and long-term climate targets • Consider sector-specific targets and longer-term targets as required • Increase investment in climate opportunities • Engage with issuers responsible for >50% of CI in our corporate portfolio • Continue to broaden engagement across social and nature themes • Carbon budgeting for the property sector • Targeted restrictions on fossil fuels • Climate stress testing for portfolio • Consider climate risk within investment strategy • Client incentives for reducing property emissions • Stewardship Code Alignment 			<ul style="list-style-type: none"> • Build partnership with leading industry groups promoting climate best practice • Active participation in UN Convened Net-Zero Asset Owner Alliance • Engage with policymakers and regulators to support clarity around climate policy and disclosure practices • Engage with critical suppliers on emission reductions 	<ul style="list-style-type: none"> • Maintain carbon neutrality in our direct operations including low emissions office space and waste management • Manage direct emissions as the business grows globally • Source high quality offsets as required, with long-term support of new initiatives for approved permanent carbon removal • Build and automate climate data solutions • Annual sustainability training across the organisation
Governance	<ul style="list-style-type: none"> • Climate change managed by Board and Executive-led Sustainability Committee 		<ul style="list-style-type: none"> • Annual TCFD-aligned climate disclosures, separate sustainability reporting 	<ul style="list-style-type: none"> • Climate and Sustainability Reports assured by independent third party 	<ul style="list-style-type: none"> • Review existing consideration of sustainability risk management within executive remuneration strategy

TCFD guide

We are disclosing our approach to managing climate risk in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) guidelines.

The following table summarises the TCFD classification and directs readers to the pages in this report where Rothsay has made the corresponding disclosures.



TCFD guide continued

TCFD pillar	Recommended disclosures	Disclosure sections/pages
Governance Disclose the organisation's governance around climate-related risks and opportunities.	a) Describe the board's oversight of climate-related risks and opportunities.	➤ Board oversight: Page 17
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	➤ Management oversight: Page 18
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	➤ Risks and opportunities: Pages 20-23
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	➤ Our climate pillars: Pages 6-7 Invest: Pages 24-30 Engage: Pages 31-36 Operate: Pages 37-38
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	➤ Scenario analysis: Pages 40-45
Risk Management Disclose how the organisation identifies, assesses, and manages climate-related risks.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	➤ Our risk management approach: Pages 47-49 Carbon intensive sectors: Pages 50-51
	b) Describe the organisation's processes for managing climate-related risks.	➤ Our risk management approach: Pages 47-49 Carbon intensive sectors: Pages 50-51
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	➤ Our risk management approach: Pages 47-49 Carbon intensive sectors: Pages 50-51
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	➤ Our portfolio metrics: Pages 53-62 Our operational metrics: Pages 63-66
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	➤ Climate data summary: Page 75
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	➤ Our portfolio metrics: Page 53

Section 1

Governance

> In this section

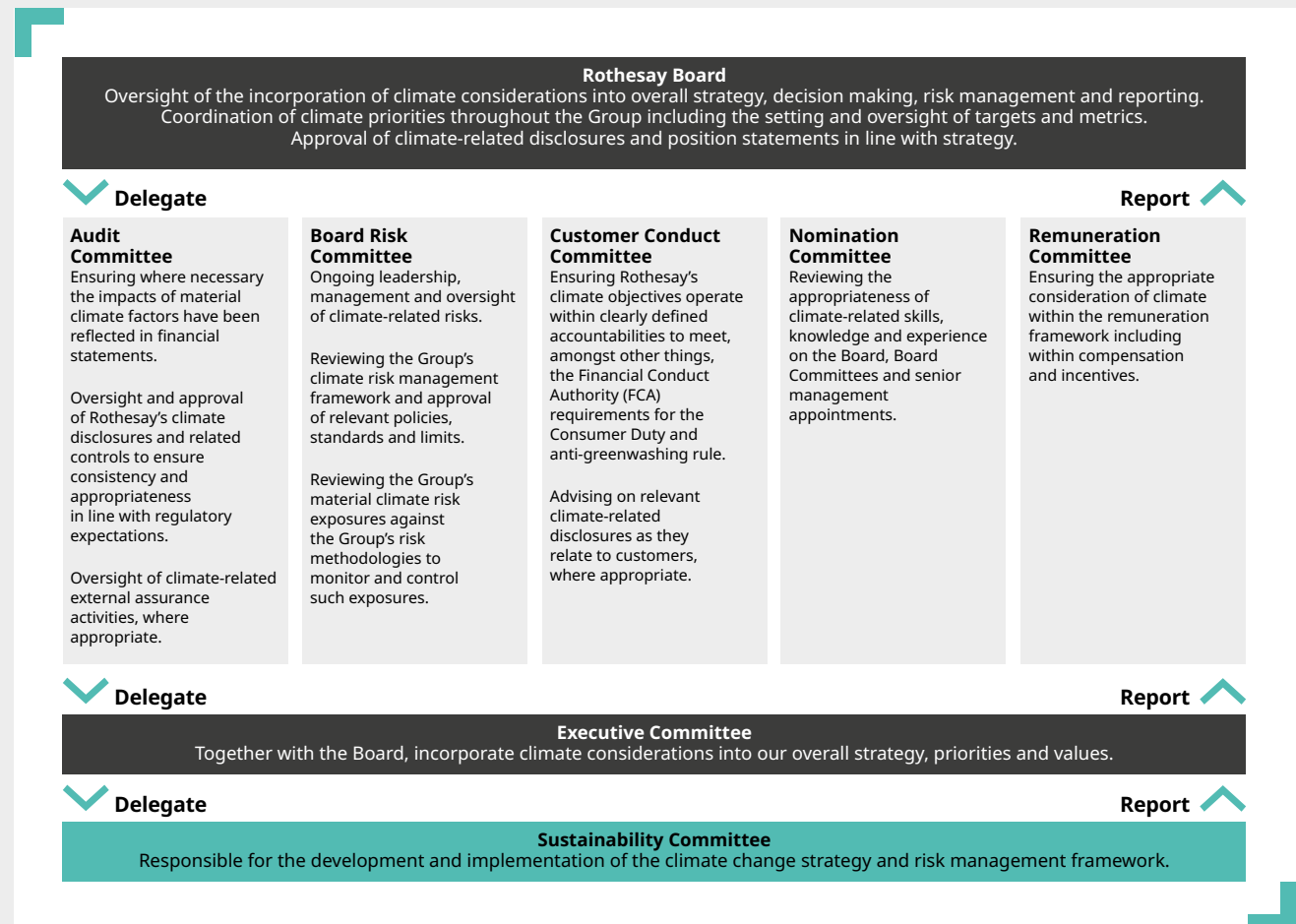
Board oversight	17
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Governance continued

Effective management of climate-related risks and opportunities must be reinforced by a strong governance framework to ensure that these considerations are factored into our business decisions.

In 2023, we reviewed the roles and responsibilities of each of our Board committees to ensure these accurately reflected their sustainability-related responsibilities. As outlined below, all have defined roles and responsibilities relating to oversight, consideration and reporting of climate-related risks and opportunities. In addition, the ESG Working Group was replaced by the Sustainability Committee (SC), now reporting into the Executive Committee, to acknowledge greater representation from Executive Management.

The Board committee structure is shown below including how responsibility is delegated and information is shared across these structures:



Board oversight

A strong Board with an effective supporting committee structure is a key component of the governance framework of Rothesay.

The Board is responsible for overseeing the delivery of the overall strategy of the Group and as part of this is also ultimately responsible for the business's approach to climate and related risks and opportunities. As climate issues are embedded throughout our processes, material elements are considered in our business planning, budget and strategy activities.

Since the presentation of the results of the 2019 PRA climate stress test, the topic of climate change has become a regular item at Board and Sub-Committee meetings. Material presented largely falls into three categories: general information designed to educate and ensure a broad understanding; specific sustainability and climate information that supports and solicits investment and business decisions; and Rothesay's climate-related metrics, alongside progress against our targets (for business operations and the investment portfolio). Performance versus our sustainability targets is shared at each Board Risk Committee meeting, with the more strategic discussions occurring as appropriate, and at least twice a year.

ESG items taken to the Board in 2023

The table below summarises some of the sustainability-related items, including climate topics, that were taken to the Board for discussion or approval in 2023:

Key discussion themes	Areas covered/Approvals
Our Disclosures	<ul style="list-style-type: none"> Discussion on topics for inclusion in our suite of sustainability disclosures, including new topic areas and positions statements. Approval: sustainability reporting including TCFD-aligned Climate Report. Approval: sign-off of the external assurance of selected climate metrics. Approval: Stewardship Code application.
Our Policies	<ul style="list-style-type: none"> Updates to a number of policies including: <ul style="list-style-type: none"> Responsible Investment and Stewardship Policy Investment and Credit Policy Charitable Contributions Policy Board and Senior Management Diversity Policy Modern Slavery Statement Agreement that the firm would offer its liability side annuity services to pensioners from companies whose sustainability characteristics might limit investment on the asset side of our business.
Our Strategy	<ul style="list-style-type: none"> Ongoing oversight of progress against climate commitments and broader sustainability strategy, including UN Global Compact and controversy screening. Specific update on 2023 performance vs objectives, including our emissions metric trajectory. Discussion on 2024 priorities. Approval: 2030 targets for publicly traded corporate bonds (50% reduction in Carbon Intensity vs year end 2020 baseline). Consideration of anti-greenwashing legislation.
Our Partners	<ul style="list-style-type: none"> Discussion on request for feedback on the Prudential Regulation Authority (PRA) and FCA Diversity & Inclusion Consultation. Discussion on whether to support the Sustainability Principles Charter for the Bulk Annuity Process. Approval: signatory status for the above Charter.

Management oversight

Day-to-day responsibility for the implementation of Rothesay's climate change risk has been delegated to the Sustainability Committee (SC), a sub-committee of the Executive Committee.

The PRA requires that Senior Management Functions are nominated to take overall responsibility for identifying and managing the risks from climate change. At Rothesay this role is held by the Chief Risk Officer.

Our ESG team is managed by our Head of ESG and Liquid Credit Risk, who reports into the Chief Risk Officer. This team acts as the central hub, supporting the coordination of Company-wide activity related to climate, with our analysts advising on climate strategy, framework and trade decisions, managing climate disclosures and monitoring relevant channels for evolving requirements and best practice.

Day-to-day responsibility for the implementation of Rothesay's climate change risk has been delegated to the Sustainability Committee (SC), a sub-committee of the Executive Committee. In line with Rothesay's philosophy of ensuring that climate considerations are not confined to one team, the SC draws senior membership from across the business and is co-chaired by the Chief Risk Officer and the Head of Investment Strategy.

Case study

Sustainability Committee

The Sustainability Committee is delegated responsibility for the development and implementation of the climate change and sustainability strategy and risk management framework at Rothesay.

The Sustainability Committee meets monthly and has duties including the development of a Net Zero Transition Plan, monitoring of financial risks from climate change and development and oversight of our external engagement strategy. It is also responsible for identifying and monitoring emerging climate-linked risks and opportunities through horizon scanning. Outcomes from the Sustainability Committee are regularly reported to the Board Risk Committee, Senior Executive Committee and Board.

Membership of the Sustainability Committee includes:

- Chief Risk Officer (co-chair)
- Head of Investment Strategy (co-chair)
- Chief Auditor
- Chief Financial Officer
- Chief of Staff
- Head of Communications & Public Affairs
- Head of ESG & Liquid Credit Risk

The Sustainability Committee has developed a few sub-groups, comprising members of the ESG team, and other business experts. The purpose of these sub-groups is to help coordinate and drive the key strategic climate-related projects for Rothesay, involving the relevant business areas. This includes projects relating to scenario analysis, data processing and automation, and Net Zero transition planning, involving experts from teams including asset origination, risk, finance, legal and IT.

Beyond this, we strive to ensure all employees understand and support our climate-related goals. From 2021, alignment with, and contribution to, Rothesay's sustainability objectives forms part of every employee's annual performance review and to that end, we have also introduced training, mandatory for all employees, on sustainability in general and Rothesay's strategy in particular. This training also covers attestation of each employee's understanding of expectations of them in relation to the FCA's anti-greenwashing rule.

Section 2

Strategy

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Risks and opportunities

Rothestay is determined to meet our climate commitments as outlined in this report.

As part of this, we need to consider the broad and varied risks and opportunities that climate change presents across our business operations, including our asset portfolio and insurance liabilities. Climate-related considerations alongside broader sustainability factors are integrated throughout Rothestay's strategy and decision-making. This includes monitoring, and where possible managing, the Carbon Intensity of our portfolio as a key risk performance indicator.

We undertake an ongoing review to identify and monitor the climate-related risks and opportunities that are most material to Rothestay. Further details on the processes for identifying and quantifying these risks and opportunities are detailed within the Risk Management and Scenario Analysis sections of this report. Based on TCFD definitions¹, we focus on:

Area	Description
Transition Risks	Related to the transition to a lower-carbon economy which may require extensive policy, legal, technology and market changes to address mitigation and adaptation requirements.
Physical Risks	Related to material event driven (acute) or longer-term shifts (chronic) in climate conditions.
Litigation Risks	Related to liability risk to Rothestay arising from the potential increase in litigation relating to our commitments, disclosures, and climate-related position statements, as well as litigation risk arising in our investment portfolio.
Opportunities	Related to efforts to mitigate and adapt to climate change that lead to investment opportunities.

We note that climate-related risks and opportunities will materialise over the short-term (up to three years), medium-term (c.3–10 years) and long-term (up to 2050) time horizons. These timelines have been determined to align with our business plan three-year cycle (short-term), our interim 2025 and 2030 targets (medium-term) and our Net Zero commitment (long-term).

The uncertainty that remains about when these risks will crystallise increases the importance of effective planning and proactive management of these risks and opportunities. We also acknowledge that both physical and transition climate-related impacts are already having an impact on our own operations and investments, and adaptation considerations are also required.

¹ Definitions based on TCFD publication: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017).

Risks and opportunities continued

The following table outlines our assessment of some of the most material climate-related risks and opportunities from Rothsay's perspective. It also outlines some potential impacts, the timeframes over which these may occur and how our strategy and frameworks are positioned to manage these.

Based on a materiality assessment of our operations, Rothsay's most material exposure to climate-related risk comes from our investment portfolio. This is evidenced by the Financed Emissions from our investment portfolio representing the greatest proportion of the emissions for which we are responsible. As we manage all of our investments in-house, we retain the strong ability to deploy a number of tools to manage these risks.

Impact is based on a materiality assessment incorporating potential financial and reputational consequences. We continue to review and assess our view of these risks and opportunities to ensure we remain appropriately positioned.

Risk	Definition	Potential Impacts	Timeframe of Risk	Key Risks	Climate Pillar Management Tools
Transition Risks	Related to the transition to a lower-carbon economy which may require extensive policy, legal, technology and market changes to address mitigation and adaptation requirements.	Heightened credit risk, including downgrade risk, for investments misaligned with the climate transition due to impacts caused by regulatory changes, litigation risk, technological advancements or shifts in consumer preferences, which could lead to stranded asset risk, reputational risk and weakened financial performance	Short Medium Long	Credit	Invest <ul style="list-style-type: none"> Frequent screening for transition risk management Scenario analysis to model potential magnitude of possible climate losses Divestment and creation of position statements on higher risk activities Tailoring maturities to match risks Engage <ul style="list-style-type: none"> Engagement to understand improvement plans of poorer performing issuers Engagement with regulators on policy evolution including on solvency considerations Operate <ul style="list-style-type: none"> Maintain robust and effective governance processes for managing climate-related risks Building capabilities to consider climate risks in longevity risk capital calculations
		Market spread risk as investors divest those issuers lacking credible transition plans and those with emerging physical risks	Short Medium Long	Market; Strategy	
		Additional capital requirements for portfolios with unmanaged, correlated climate risk	Medium Long	Strategy	
		Increased market volatility as climate-related events lead to macro-economic impacts such as higher inflation and policy risk	Medium Long	Market; Strategy	
		Reduced access to capital or demand for our products and services due to the reputational impact of poor climate performance	Short Medium Long	Strategy	
		Changes in longevity expectations for policyholders dependent on emerging climate scenarios	Long	Insurance; Liquidity	

Risks and opportunities continued

Risk	Definition	Potential Impacts	Timeframe of Risk	Key Risks	Climate Pillar Management Tools
Physical Risks	Related to material event-driven (acute) or longer-term shifts (chronic) in climate conditions.	Loss of returns on investment loans for assets, such as property, located in areas vulnerable to extreme weather events, leading to reductions in asset valuations	Medium Long	Credit; Liquidity	Invest <ul style="list-style-type: none"> Screening to avoid material physical risks where identified Engage <ul style="list-style-type: none"> Engagement with issuers, suppliers and regulators on mitigation and adaptation activities Operate <ul style="list-style-type: none"> Robust operational and business resilience frameworks including own operations emission climate commitments Robust counterparty risk management and diversification of reinsurers
		Reduced financial performance of investee companies due to increased operational or litigation costs associated with implementing climate adaptation measures, such as strengthening infrastructure against repeated climate events	Medium Long	Credit	
		Operational disruption of investee company activities, including to their supply chain, due to extreme weather events impacting production and operations	Short Medium Long	Credit	
		Disruption of Rothesay's supply chain due to extreme weather events impacting activities such as production and distribution	Short Medium Long	Operational	
		Increased frequency of extreme weather events leading to Rothesay-specific property damage and business disruption	Medium Long	Operational	
Litigation Risks	Related to liability risk arising from the potential increase in litigation relating to commitments, disclosures, and climate-related position statements.	Increased risk of potential fines and reputation damage in event of our non-compliance with evolving climate-related regulations	Short Medium Long	Strategy; Operational	Engage <ul style="list-style-type: none"> Engagement with regulators and industry stakeholders on emerging trends and expectations Clear policies and processes for collaborative engagement to avoid perception of anti-competitive behaviour Operate <ul style="list-style-type: none"> Monitoring developments through our specific ESG Horizon Scanning framework Maintain clear governance processes and controls for our climate-related activities including annual reporting
		Increased requirements and regulatory oversight on our climate management credentials	Short Medium	Strategy; Operational	
		Increased risk of potential fines and reputation damage for companies within our portfolio impacting performance	Short Medium Long	Credit; Strategy	

Risks and opportunities_{continued}

Risk	Definition	Potential Impacts	Timeframe of Risk	Key Risks	Climate Pillar Management Tools
Opportunities	Related to efforts to mitigate and adapt to climate change that produce opportunities internally and externally for Rothesay and stakeholders.	Investments in companies, technologies and infrastructure that will be required to enable the transition to a low carbon economy such as renewable energy and energy-efficient infrastructure	Short Medium Long	Strategy	Invest <ul style="list-style-type: none"> Active identification and classification of investments that meet our climate opportunity definition Monitoring of country performance against nationally determined contributions Operate <ul style="list-style-type: none"> Transparent climate targets, risk management and disclosures
		Strengthened performance of sovereign positions in countries well positioned to benefit from low carbon economy	Medium Long	Credit; Liquidity	
		Improved operating efficiency and high levels of resiliency at Rothesay, minimising costs to meet climate targets	Short Medium Long	Operational	
		Reputational benefits of strong sustainability risk management including new business opportunities and attracting talent	Short Medium Long	Strategy; Operational	
		Strengthened credit performance of investments in companies well positioned to benefit from low carbon economy	Short Medium Long	Credit	

Our climate strategy is risk adjusted, recognising that many issuers have relatively low exposure to climate risk. At the riskiest end of the spectrum, we seek to avoid those issuers whose livelihoods seem most threatened by climate change and who seem indifferent to the impact of their activities. At the other end of the spectrum, where opportunities are greatest, we seek to lend to those issuers contributing to a low carbon world and those whose plans to decarbonise seem most plausible.

In this way, the potential impacts of these risks are embedded into our strategy, risk management and governance through a number of management actions. Our ability to identify and invest early in enterprises that successfully navigate to a low carbon future is vital to our ability to carry out our core purpose: securing the future for our policyholders by protecting their pensions.

Invest

The greatest impact that Rothesay can have on global progress to Net Zero is through our investments in entities which themselves are responsible for greenhouse gas emissions to varying degrees and whose efforts to decarbonise may be vital for the overall cause. As a result, this is the focus of our climate risk management strategy.



Invest continued

Investing responsibly is a cornerstone of our investment approach. We do not believe it is possible to achieve our investment objectives without carefully considering climate and sustainability risks and opportunities.

Embedding responsible investing within our investment decision-making ensures we consider material risks and opportunities across our asset classes in a structured way. This drives policyholder security, balance sheet stability, and value driven investment, while also ensuring we can meet our own climate commitments. Appropriate climate and sustainability positioning is as important to our stakeholders as it is to us, and we will continue to refine our approach in line with changing expectations, and evolving risks and opportunities, to ensure we continue to meet the needs of our stakeholder community.

These objectives have driven our approach to portfolio management in two key ways and provide a strong footing for climate risk management.

Asset management

We believe that the best way to optimise these outcomes is to manage all our investments in-house, with a team of experts across origination and trading covering our chosen asset classes and jurisdictions. Risk assessment is a cornerstone of our culture, fostering regular debate across the business and Executive team about evolving risks and opportunities. Climate risk has become a key element of this debate, and we believe this hands-on approach maximises our understanding of climate-related risks and opportunities across the portfolio, and allows a very detailed and specific response, from investment decisions and stewardship to strategic positioning.

Our Investment Objectives are defined as:

- To ensure that our liabilities to policyholders can be met in full and in a timely manner
- To maintain our financial strength and capitalisation
- To produce stable earnings from our in-force business
- To protect and increase the value of our shareholders' investment
- To safeguard Rothesay's reputation and support our strategic goals

Asset allocation

Our portfolio composition reflects Rothesay's core objectives of policyholder security and asset and liability management. We are typically an investment grade debt investor and seek out issuers whose balance sheets can support transition, or projects and properties backed by high quality assets and stable cashflows. Typically, they are in developed countries and are less exposed to physical risk. We recognise the benefit of matching long-dated cash outflows in our pension liabilities with stable long-dated investments that fund the provision of critical infrastructure and contribute to reduced emissions, particularly in the UK. Securing the future for our policyholders therefore takes a wider meaning than that related purely to their finances.

Across the investment portfolio, our climate strategy delivers by:

- Decarbonising our investment portfolio
- Supporting change through proactive stewardship
- Enhancing our risk assessment through climate scenario analysis

Invest continued

Decarbonising our investment portfolio

Our targets

Rothsay is committed to transitioning our investment portfolio to Net Zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5°C above pre-industrial levels as outlined in the Paris Agreement.

To drive immediate progress, we have established the following short-term targets:

- **a 20% reduction** in the Carbon Intensity of our publicly traded corporate debt portfolio by 2025, vs our year end 2020 baseline.
- **a 20% reduction** in the Carbon Intensity of our total portfolio by 2025 vs our year end 2020 baseline.
- **a 50% reduction** in the Carbon Intensity of our publicly traded corporate debt portfolio by 2030, vs our year end 2020 baseline.
- **a 50% reduction** in the Carbon Intensity of our total portfolio by 2030 vs our year end 2020 baseline.

Where Carbon Intensity is defined as the tCO₂e/mmUSD revenue.

The medium-term target for the 2030 emissions across our total portfolio has been introduced this year. Our goal is for its Carbon Intensity to have declined by 50% vs the year end 2020 baseline. To avoid the more severe consequences of climate change by keeping global warming to below 1.5°C, the scientific research presented by the IPCC suggests that this steep rate of decarbonisation is necessary.

Progress against our targets is tracked and circulated to the Executive Committee on a weekly basis.

Transition planning

The pace of decarbonisation in our portfolio varies across asset classes and geographies, reflecting a wide array of challenges. During 2023 we started work on our Net Zero Transition Plan by considering and modelling how each sector may decarbonise, and the levers that may influence that outcome. This will inform our long-term planning and intermediate portfolio goals and targets. The analysis to date has identified several priority actions to support this initiative which have been summarised on page 12, with publication of our formal Transition Plan to follow.

Exclusions

In 2021, we published our first Responsible Investment Policy which included our thermal coal exclusion policy, designed to prevent us from financing new mines or electricity generation plants that predominantly produce or use thermal coal. The policy has now been updated to a Responsible Investment and Stewardship Policy. Where issuers have existing coal exposure, we actively target those with clear plans to minimise this by the commonly accepted coal exit horizon of 2030 and focus our stewardship on supporting such an outcome. This year, we have introduced

an exclusion related to controversial oil and gas. We will not invest in companies that derive more than 10% of their revenue from the production of arctic oil and gas or tar sands extraction. These exclusions limit our exposure to entities with inadequate decarbonisation paths and which are therefore inconsistent with our decarbonisation targets. We will continue to position our exclusion strategy to ensure we protect our policyholders and manage our long-term sustainability and climate commitments, recognising our risk management framework naturally minimises investment in these areas.

Opportunities

Climate opportunities are typically considered to be investments in new technologies which provide solutions for climate change mitigation or adaptation. This group of investments meets the following definition: "We consider climate opportunities to be investments that directly finance activities such as renewable energy, low carbon energy, energy efficiency projects and pollution control." In 2023, 1.7% of the portfolio was classified this way, with most of the exposure coming from low carbon energy issuers. This has increased from 1.3% last year.

We have identified investment in renewable energy and other climate opportunity projects as an area for future growth. While opportunities that match both our risk and return objectives have been limited to date, we are keen to accelerate the pace of our investment in these projects. This is a responsibility of our industry as a whole and is why we are engaging collaboratively with our peers as a member of the ABI's Investment Delivery Forum to pinpoint obstacles to investment and to recommend structural and regulatory solutions that can unlock the capital that we would like to put to work.

Invest continued

Our portfolio

Rothesay's investment portfolio can be divided into three main groups:

- Corporate Bonds and Infrastructure Lending
- Sovereign and Public Finance Bonds
- Bonds and Loans Secured by Property

Corporate Bonds and Infrastructure Lending

This sector carries many of our most carbon intensive investments but is also decarbonising at the fastest pace. We consider both the current emissions intensity as well as the quality of a company's targets and track record, particularly for the more carbon intensive issuers.

The assets in this sub-portfolio are among the most liquid we own which means it is possible for us to divest from those issuers demonstrating the weakest progress in the transition to a low carbon economy. We remain supportive, however, of investing in higher intensity issuers where we have high confidence in their appropriate decarbonisation plans, and we prioritise these companies within our engagement strategy to support our positioning and the successful delivery of these decarbonisation plans.

Stewardship of our investments

Stewardship is an important aspect of Rothesay's climate risk management. We recognise that climate and sustainability considerations are rapidly evolving, often at a different pace across industries and jurisdictions. We adopt an engagement first approach, and typically retain investments which carry higher emissions and transition risk where we believe the issuer is incentivised to manage this risk over the long term. Further information can be found in the Risk Management section of this report and our dedicated Stewardship Report.

Public Finance

This encompasses a wide array of high quality and long-dated investment opportunities spanning sectors such as higher education, US non-profit healthcare, and government-linked investments across infrastructure and local authorities. Many of these investments have relatively low carbon emissions, reducing their transition risk, and many provide critical infrastructure or vital social benefits. These features, alongside their rating stability, mean they represent attractive investments. However, disclosure and reporting practices in these sectors remain in the early stages of development, with a sub-set of issuers collaborating to facilitate broader industry disclosure standards. We are keen to support enhancement to these disclosure practices and focus our approach on engagement with issuers and industry groups to support increased availability of standardised disclosure and the development of climate risk management strategies.

Property

Our property lending can be segmented into residential mortgages, REITs, social housing, and commercial real estate. Loans against residential property and social housing can be long-dated, while commercial real estate and REIT loans are typically shorter than ten years. Our approach recognises that asset value may be impacted by the physical risk associated with location, as well as transition risk arising from policy actions, and we screen for material physical risk for property loans ahead of investment.

The property sector faces challenges in reducing emissions, given the varying ages and energy efficiency of the existing property stock. Policy actions typically focus on improving energy efficiency, as measured by EPC ratings in the UK, either by incentivising action e.g. the provision of grants, or by establishing minimum future efficiency standards for new builds, or for leasing property. Improvements to property energy efficiency is currently most prevalent in the social housing and REITs sectors, where managers are improving efficiency standards and emissions are falling. Policy actions are also a material consideration in the commercial property space. For example, in the UK, commercial property must currently carry a minimum EPC grade of E. From 1 April 2027 it will become unlawful to lease a commercial property with an EPC rating below C, rising to a minimum EPC grade of B by 1 April 2030. We have historically targeted high-quality properties for our commercial real estate investments, utilising industry accreditations such as Building Research Establishment Environmental Assessment Methodology (BREEAM), Leadership in Energy and Environmental Design (LEED) and EPC ratings to assess property energy performance. This remains a key element of our risk assessment for new investments.

Case study

A closer look at sovereign emissions

Sovereign Bonds

Our liquidity and cash flow matching strategy calls for large holdings of gilts, and our investment in gilts and UK sovereign guaranteed bonds account for more than 80% of our sovereign exposure, with the US the next largest exposure. Rothsay's holdings of sovereign debt, primarily gilts, at year end 2023 were much larger than twelve months earlier. Much of this increase came as part of new business premium through pension risk transfers received late in the year and awaits redeployment into return-seeking assets.

Our gilts have the advantage of carrying a relatively low Carbon Intensity, reflecting the UK's service-based economy and comparatively strong decarbonisation targets. The US is a more carbon-intensive economy, though recent policy actions including the Inflation Reduction Act support meaningful investment in low carbon technologies. We have limited ability to alter our investment approach to these sectors as they support our liquidity and cash flow matching needs, but we have been heavily involved with the NZAOA

initiative to promote disclosure and assessment of sovereign emissions. As part of this work, we are considering wider datasets to measure sovereign emissions to support our understanding of emissions trajectories to enable us to engage effectively with policymakers.

An important outcome of this initiative has been the development of the NZAOA/ASCOR score. This provides insight into the ambition and effectiveness of climate policy across sovereigns. It is based on 39 binary indicators developed by the project known as ASCOR (Assessing Sovereign Climate-related Opportunities and Risks) which are grouped into three pillars that assess, for each sovereign under consideration its emissions pathways (trends and targets), its climate policies (e.g. for carbon pricing, fossil fuels, adaptation) and the environment for climate finance. While the first pillar measures emissions and their recent trends, the other two pillars which measure policy and financial attributes can be thought of as somewhat forward looking. The hope is that as countries strengthen their policies and make

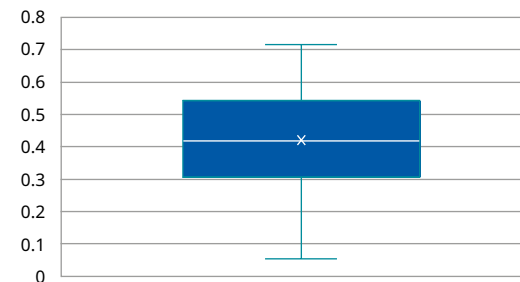
progress on financing their transition plans that an improved ASCOR score signals reduced emissions in the future.

The NZAOA sovereign working group, which we co-lead, has aggregated these indicators into a single assessment score for each of the 25 countries appearing in the first release of ASCOR data. The score can be anything from zero to one (a higher score reflecting more advanced and effective policies).

We intend to monitor ASCOR score progression as a forward-looking indicator of climate transition alongside the more traditional broad emissions metrics, while progress against the 39 binary indicators will support effective engagement with policymakers.

The interquartile distribution of the scores across the 25 countries is shown below. Our portfolio has a weighted average portfolio NZAOA/ASCOR score of 0.573, which is in the top quartile.

Interquartile distribution of NZAOA/ASCOR score



Key	
Maximum	0.72
Upper Quartile	0.54
Median	0.42
Lower Quartile	0.31
Minimum	0.05

Case study

The importance of nature and biodiversity

We recognise the critical role that nature plays in the maintenance of stable economies, communities, and the planet.



The importance of nature and biodiversity continued

Since 1994, United Nations Biodiversity Conferences have been held, reflecting increased international focus on sustainable development, biodiversity, and nature topics. This work culminated in the Kunming-Montreal Global Biodiversity Agreement in 2022 (Biodiversity COP 15), committing nations to halt and reverse nature loss by 2030. The UK Government's DasGupta Review recommends a call to action for countries and companies to reassess their relationship with the natural world, as awareness of the significant risks posed by nature degradation has grown significantly.

Rothsay recognises the critical role that nature plays in the maintenance of stable economies, communities, and the planet. We are therefore starting to consider more formally impacts of and dependencies on nature across our investment portfolio, supply chain and own operations.

The World Economic Forum statistic that "More than half of the world's global output, an estimated US\$44 trillion of economic value, is highly or moderately dependent on nature", has emphasised the critical need for the consideration of the impacts of nature degradation.¹ Our portfolio will contain issuers with dependence and impacts on ecosystems. However, many of these risks, such as water availability or land use changes and increased action against pollution and deforestation, may not currently be paid due consideration which could have potentially significant financial implications.

It is therefore vital that we take steps to understand aspects of our activities that are exposed to the greatest potential risks from these impacts. Given the nature of our business, our initial considerations will focus on our investment portfolio as, in a similar way to climate, our financing activities represent the greatest nature-related risks and opportunities, starting with our water and deforestation exposure.

While not formally defined as nature-related risks, we already consider some nature impacts, for example pollution events, within our issuer-level assessment. However, understanding the full impact of nature risks remains challenging and is still in early stages of development. It will therefore be a gradual process to fully embed nature beyond climate into all our considerations. Disclosure frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) will support this development over time.

We are at the start of our work to develop our approach to nature and biodiversity considerations. This will be a multi-year process during which we will continue to build our capability and strategy to ensure we can appropriately manage and report on these risks within our overarching sustainability approach.

Deforestation: The impact of the EU's Regulation on Deforestation-Free Products

As outlined, nature-based impacts are becoming a more significant consideration and the increased acknowledgement of the importance of nature on a stable economy is being evidenced in law. One notable legislative change was the introduction, in 2023, of the EU Regulation on Deforestation-Free Products.

This Regulation mandates that any company conducting business in the EU market must conduct due diligence to ensure that the products they import are not associated with deforestation. Requirements include an assessment of vulnerabilities of products to deforestation, the implementation of mitigation measures, and tracking the origin of goods throughout the whole supply chain.

Companies reliant on commodities like timber, soy, beef and palm oil, which are often associated with deforestation, face increased pressure to adopt sustainable practices or risk losing access to the EU market. This legislation could translate into higher costs for compliance, revenue losses due to market exclusion, and increased volatility in commodity prices. This could have a negative impact on a company's financial performance.

It is therefore important that investors build their capacity to consider more comprehensively nature-related themes in their issuer-level assessment to ensure their risk appetite remains appropriate.

1. <https://www.ipcc.ch/report/sixth-assessment-report-cycle/>

Engage

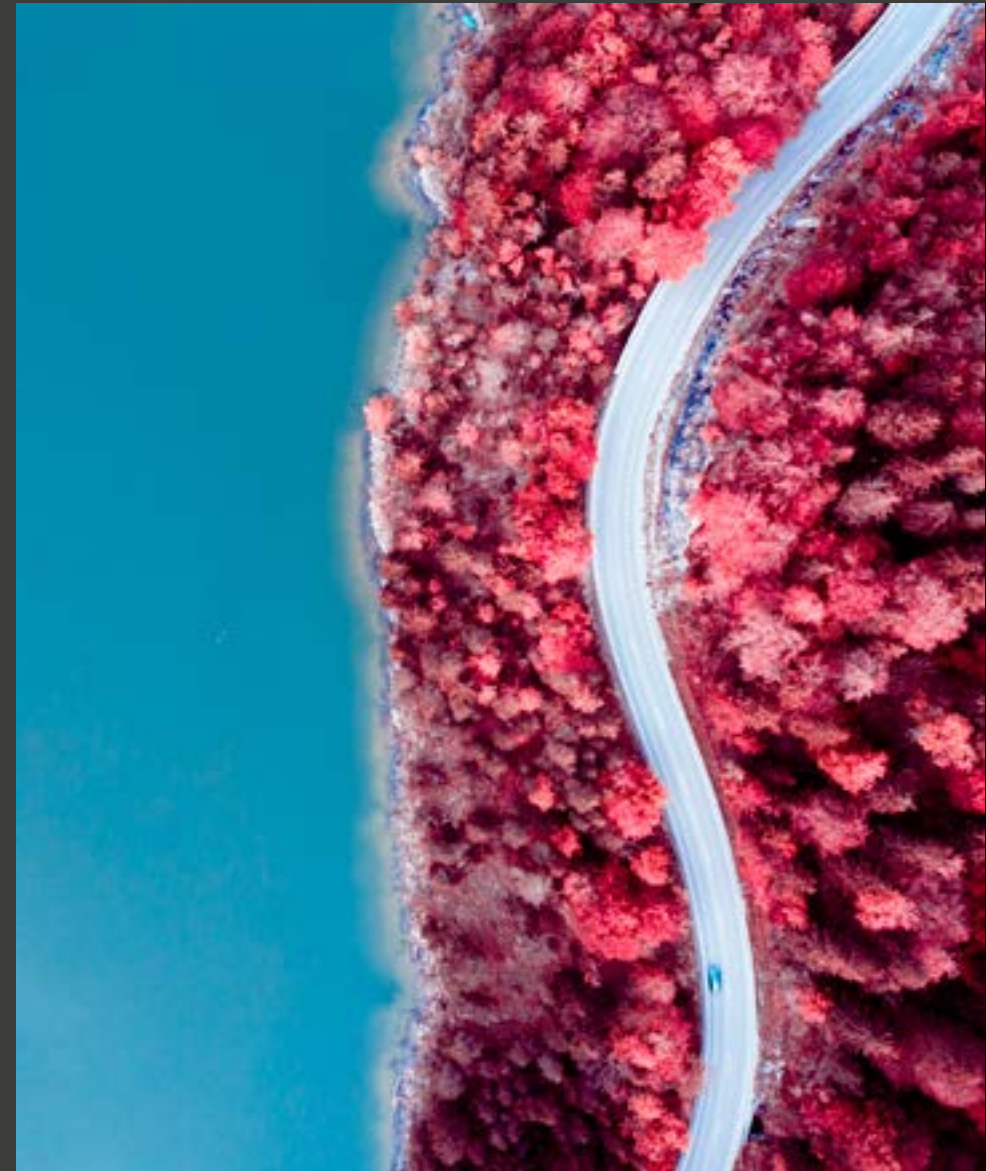
At Rothsay, engagement is an essential tool. This is why it is one of our strategic climate pillars.

It helps us prepare for and influence evolving regulations, understand stakeholder priorities, and empower our colleagues to drive positive outcomes. Our engagement covers a broad range of stakeholders including a particular focus on issuers within our investment portfolio, pension fund trustees and policyholders, industry groups and regulators.

In February 2024, we were pleased to be accepted once again as a signatory to the Financial Reporting Council's UK Stewardship Code 2020 ("the Code"). The Code sets high standards of stewardship for organisations investing money on behalf of UK savers and pensioners. To become a signatory, you must be able to demonstrate stewardship over the previous 12 months through the responsible allocation,

management and oversight of capital which creates long-term value for beneficiaries and leads to sustainable benefits for the economy, the environment and society. This puts an increasing focus on outcome-specific engagement. For more detail on our broader stewardship strategy please refer to our Stewardship Report.

We also became a signatory of the new Sustainability Principles Charter for the Bulk Annuity Process. The Charter, developed by Accounting for Sustainability (A4S), provides guidance around four principles for defined benefit schemes and insurers during the bulk annuity transaction process. The four principles are Transparency, Decision-making, Reporting & Engagement and Collaboration.



Engage continued

Portfolio engagement

Engagement is a key part of our mission to provide policyholder security by encouraging more sustainable practices that support long-term financial returns. We utilise engagement to ensure we maintain an appropriate understanding of the risks to which our borrowers are exposed and promote positive change where possible. As we do not use external asset managers, all our engagement is conducted by our own people.

Engagement with issuers and stakeholders, such as regulators and industry bodies, occurs in some form on an almost daily basis and allows us to understand and respond to incoming challenges and opportunities. In addition, our sustainability framework includes a climate-specific engagement strategy. Climate-specific engagement is coordinated by analysts in the ESG Team and conducted in collaboration with members of our Credit Risk and Asset Management teams. Our bilateral climate engagement approach is predominantly focused on specific, direct engagement with the most material corporate issuers within our portfolio.

Our climate engagement strategy seeks to exert influence through direct communication to encourage issuers to improve disclosures and set more ambitious science-based targets. This enhances our ability to identify leaders and poorer performers, strengthening our risk management approach, and where appropriate, enables us to take action to position accordingly. This activity also increases our confidence that our portfolio will be able to decarbonise in line with targets, and helps us to direct financing to those companies where emissions reductions will be most vital.

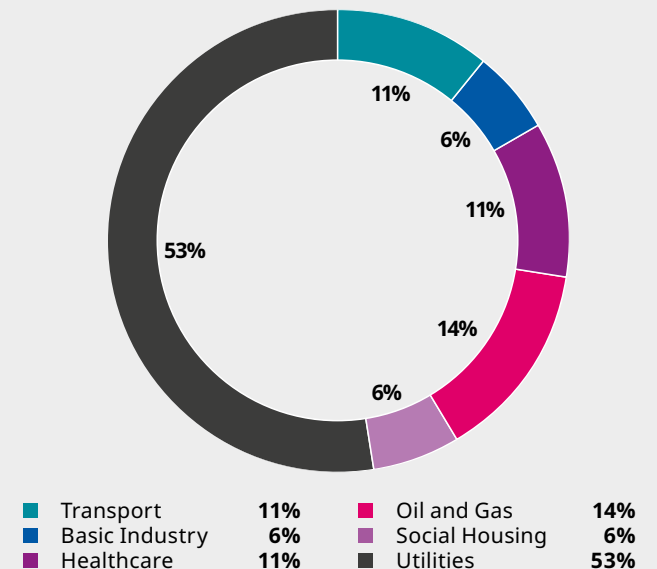
In addition to BAU engagements, during 2023 we engaged with 36 companies within our investment portfolio for sustainability-specific reasons. The majority of these included at least one climate-focused topic. We select entities for climate engagement based upon a combination of high current emissions or reduction targets with an insufficiently steep trajectory. Our engagement once more exceeded our target to engage with at least 20 of our most emission intensive companies within our PTC D sub-portfolio (we also engaged with 36 last year), with a more specific outcome driven approach focusing on topics such as SBTi alignment and fossil fuel exposure. These engagements received an increased 95% response rate.

We recognise that as debt investors we have less direct influence than shareholders but believe these engagements both improve our understanding of climate risk for key investments, and contribute towards positive change. We monitor evolving progress with climate targets at the issuer level and see improvement each year. The liquidity of our corporate bond portfolio allows for us to reduce our holdings where an entity's progress remains too slow, recognising the challenges and opportunities they face, and considering their responses to our engagement.

Our engagements are multi-year and have two main objectives:

- a) **to build knowledge:** engagement focused on understanding an issuer's current position, key challenges, and climate plans, to validate our internal climate score.
- b) **to encourage action:** engagement focused on encouraging issuer to take specific action such as best practice aligned disclosures and more ambitious, science-based targets.

Engagement by sector (%)



Engage_{continued}

Case study

US Airport engagement

In the second half of 2023, Rothesay engaged with one of the largest airports in the world to discuss the steps they are taking to transition. Large hub airports are crucial to the global aviation industry and as the number of people flying continues to rise, without the necessary planning, mitigation and adaptation, so will emissions.

As part of this engagement we are looking to:

1. Understand how the issuer will manage its own emissions while managing its relationship with key stakeholders (mainly airlines) when undertaking contract renewals.
2. Communicate to the company the importance of positioning for long-term climate trends while also addressing short-term challenges.

We established a relationship with the CFO which enabled us to engage with the company on their environmental management system and how they have integrated ESG into their latest Use and Lease agreement with the primary airline. During our initial meeting we communicated our views on the importance of positioning the company for the climate transition.

Following this meeting, we engaged with a further two Airport CFOs in the United States and provided feedback on the Airport Council International's proposed ESG framework. Communication has taken place via multiple communication channels, including in person, conference calls and written correspondence.

The company was receptive to our communications and our input regarding their sustainability strategy even to the extent that they asked us to participate in a conference organised by the ACI whose goal was to set standards for their entire industry. We anticipate remaining engaged with the company and its role in the carbon transition which will occur over the coming decades.



Engage continued

Our policyholders

Understanding customer priorities

Rothsay provides defined benefit pensions to individual policyholders through bulk purchase annuities agreed with the trustees of corporate pension schemes (Corporate Trustees) and through back book acquisitions from other insurers. Overall, we are responsible for securing the pensions of over 930,000 people, predominantly domiciled in the UK.

Corporate Trustees are required by their regulator to consider sustainability issues (including climate change) within their investment strategy, reflecting the classification of sustainability factors as financially material considerations. The largest pension schemes must also undertake governance, reporting and disclosure in accordance with TCFD recommendations, and therefore they rely on us to provide them with Rothsay's climate and sustainability-related disclosures. When requested we provide details on our climate strategy to schemes, however as we only operate one portfolio this information is not scheme specific.

Climate and sustainability positioning are material considerations for our customers, and trustees are often keen to ensure their pension liabilities are deployed sustainably, to mitigate the financial risk from climate change while supporting sustainable business practices. We supplement our external disclosures with direct engagement with trustees, often prior to conducting a buy-in or buy-out, and by providing regular updates as requested.

Following the publication of our Climate and Sustainability Reports each year, we directly engage with most consultancy firms responsible for advising Corporate Trustees, as well as responding to surveys on the topic. Through these actions, we have been able to understand Corporate Trustees' priorities and concerns, allowing us to develop more useful disclosures.

We conduct our own brand awareness surveys, alternating annually between the Pension Trustees of our policyholders and external consultants. These provide an opportunity for some of our key stakeholders to provide feedback on their perception of Rothsay, including our approach to stewardship and management of sustainability-related risks.

We are responsible
for securing the
pensions of
+930,000
people in the UK



Climate-related screening of liability side transactions

Before offering to transact with pension scheme trustees, we consider sustainability criteria, including both the current and former operations of the scheme sponsor. Our overarching view is that people deserve a safe and secure income in retirement and consequently there are only a relatively limited number of situations where sustainability considerations relating to the sponsor itself should prevent us from securing the benefits of former employees of a company. However, in assessing a potential transaction, we will consider:

- 1) issues of fairness between different categories of member; and
- 2) where there is a large return of surplus associated with the transaction, the sustainability criteria of the proposed use of proceeds by the sponsor.

Engage continued

Engaging our colleagues

Rothsay's culture has been built by employing talented people who take pride in their work and are able to take ownership of what they do. Our people do what it takes to be amongst the best in our industry and we have always trusted our employees to work in the way that lets them achieve that.

Our colleagues are passionate about enhancing our climate and sustainability practices across our business. We encourage this through a range of initiatives which empower and motivate them to increase this focus within their daily role. Our employee engagement survey is a key tool to ensure we continue to understand priorities and challenges in our workforce and can adapt our approach accordingly.

Training and performance management

Training is vital to build a core understanding of the challenges climate change presents, and Rothsay's objectives in response to these. It enables our colleagues to consider how it impacts their role, and the difference they can make. We have continued to tailor our training to reflect differing needs.

We have implemented a mandatory annual climate training module for all employees, including contractors, which provides a consistent base understanding of climate change and sustainability initiatives within our workforce. It sets out how Rothsay is positioning to manage our risks and promote a more sustainable future, and how employees can contribute to this outcome. The content of this training is updated annually to ensure it remains fit for purpose and focused on the most relevant elements for our employees.

The mandatory training is complemented by voluntary Lunch & Learn sessions through the year, and team-specific training sessions tailored to help teams understand the key considerations specific to their role and facilitate discussion on actions and responses to further our objectives.

ESG is considered during objective setting across the firm, and all annual appraisals include analysis of performance in support of Rothsay's sustainability and climate goals.

Leading by example with climate friendly services and benefits

We survey all our operations through a climate lens including the offices we lease, and the services and benefits we offer our employees. Our kitchens have a wide range of glasses, crockery, and metal cutlery so our employees do not need to use disposable cutlery for any meals. We provide free tea and coffee, using sustainable suppliers, and chiller taps offering a choice of still and sparkling water to reduce the need for disposable plastic bottles.

We have offered popular, tax efficient electric car leasing for several years, allowing our team to reduce their own personal emissions. In addition, we also have our Cycle to Work scheme, providing financial assistance for employees to purchase a bicycle and safety equipment. This allows our staff to enjoy a healthy way to travel to work, while also reducing their carbon footprint.

Engaging with supply chain: third-party providers

In our 2022 Climate Report, we completed an exercise to quantify the emissions associated with our broader Scope 3 eligible activities for the first time. One of the outcomes of this exercise was the identification as the most significant contribution to this footprint being our purchased goods and services, of which our Third Party Administrators represent a significant proportion. Due to this, we undertook targeted engagement with our three core stakeholders in this category with the aim to get additional details on their emission reduction plans to support our assessment of the likelihood of reduction in our Scope 3 emissions from this source.

In these conversations, we were able to reiterate the importance of our suppliers evidencing their effective consideration and management of climate-related risks and request additional information. Our engagement also included asking for evidence of alignment with 1.5°C alignment, including the setting of SBTi approved targets (where not already established), disclosure of Scope 3 emissions and publishing of clear transition plans. As long-term relationships, this is a multi-year exercise and we will continue to engage with them to ensure they are taking steps to meet our expectations.

Engage continued

Engaging with peers and policymakers

We believe it is critical to engage with policymakers and the wider industry to debate climate-linked challenges. Changes to policy, regulation and disclosure practices have accelerated and enabled genuine progress in the journey to Net Zero, and we actively engage across a wide range of initiatives.

Our climate engagement strategy, therefore, includes collaborative engagement through formal or informal industry groups where we determine there is relevance to our portfolio and that anti-trust concerns are absent. We are keen to join groups whose goal is to influence and assist sectors that are not yet mature in their sustainability reporting approaches and could benefit from combined industry experience to support better adoption.

Our participation in industry groups such as the Association of British Insurers, the PRI, the NZAOA and the Climate Financial Risk Forum allows us to remain at the forefront of new policy and disclosure standards. We have made significant contributions to several NZAOA working groups, especially the one devoted to Sovereign Debt which we co-lead. We also work directly with our regulators and relevant government departments on key policy developments, including most recently on Solvency II reform and avenues it may open for productive investment.

Examples of engagements include:

- Working with our regulators and industry bodies such as the ABI to help shape regulation such as solvency reform and to provide feedback on draft climate and sustainability requirements.
- Providing input to the UK Government on financing low carbon technology, including their future power generation and nuclear power strategies.
- Participation in industry initiatives, including input to the Transition Plan Taskforce with the ABI.
- Joining the newly launched A4S Sustainability Principles Charter.
- We are broadly represented in the various NZAOA workstreams and co-lead the Sovereign Debt Working Group.
- We are a member of the CFRF and have provided editorial review to several of their publications.
- Liaison with the ESG Social Housing Working Group to continue expansion of disclosure by housing associations.

Our partners



Operate

Minimising our impact

While our investment portfolio has the most influence on our journey to Net Zero, it is important that Rothesay recognises the direct impact from our own operations and does what it can to minimise emissions generated as we carry out our own work.

For those emissions we have been unable to reduce, we purchase high quality offsets, as noted on following page.

Our operational emissions

Our UK operations

Most of our workforce are based within our London office, a highly heat efficient building with an EPC grade of B. Since late 2020, all electricity supplied to this office has come from a 100% renewable source as certified by the Carbon Trust, drastically reducing our own operational Scope 2 emissions.

We have sought opportunities, where possible, to continue to reduce our Scope 3 emissions by implementing secure printing. In addition, our London office operates on a zero-landfill basis, with over half of the waste from the building either recycled or anaerobically digested.

Over the past couple of years, we have seen a rise in our flight emissions from their very low base in 2020, driven by a rebound from COVID restrictions and the global growth of our business. Our approach seeks to manage flight emissions to a reasonable level and considers appropriate levels of air travel within the organisation.

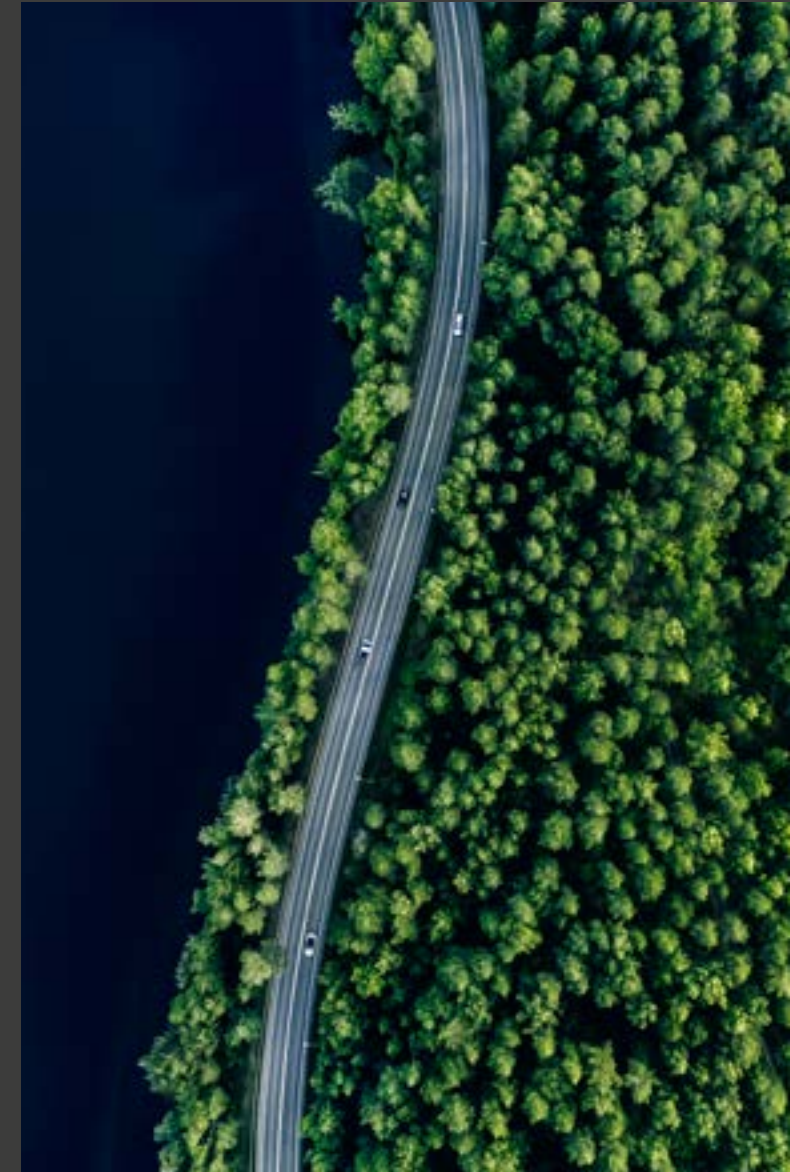
Our US and Australian operations

Our non-UK operations remain a relatively small part of the overall workforce. In 2022, our US team relocated into a recently renovated class A property, targeting a similar heat efficiency to that of our UK Headquarters. In 2023, our Australian team moved into offices in a property that has been recognised for its sustainability approach through a 6 Star Green Star Office Design v3 certified rating.

Climate and cleaning

Our property management team has demonstrated that the pursuit of climate and sustainability objectives successfully enhances sustainability across many aspects of supplier choice and facility management. Initiatives include:

- Greywater systems to reuse waste sink and washing water for WC flushing and hose point cleaning
- Chemical free cleaning
- Closed loop compost for plants on our roof terrace



Operate continued

Offsetting our emissions

Our strategy

Our offset strategy is designed to prioritise emission reduction measures with offset mechanisms utilised to compensate for residual emissions that cannot be eliminated immediately.

We focus on the highest quality carbon offsets using criteria that includes factors such as Permanence, Additionality, Verifiability and Exclusivity, whilst ensuring the avoidance of social and environmental harms. Traditional carbon removal credits via afforestation have historically been our favoured option for offsetting our emissions but we recognise the limitations of these with regards to Permanence and Verifiability and have hence looked to improve upon this for our future emissions.



Our partnership with Climeworks

Climeworks' Direct Air Capture carbon credits represent such an improvement. They offer some of the highest quality offsets currently available given, amongst other things, their permanence (+10,000 years) and the fact CO₂ removed is easily quantified. Their direct air capture technology, which works solely off renewable energy, extracts CO₂ from the ambient air which is then permanently stored through rock mineralisation deep underground. We feel it is important to support nascent industries like this, which need to rapidly scale to meet the IPCC projections for required carbon removal quantities in Net Zero scenarios. Our partnership with Climeworks will be used to offset the expected Scope 1 & 2 emissions from our own operations from 2025.

Offsetting operational emissions

Rothesay has again worked with Climate Impact Partners (formally Natural Capital Partners) to assess our operational emissions.¹ Against this we have purchased offsets for the following project in Ghana, which has been verified by the Verified Carbon Standard. Further information on the United Nations Sustainable Development Goals (SDGs) to which the project contributes is also provided.

1. Operational emissions relate to the YE 2022. This aligns the reporting period with our investment portfolio which sources emissions reported during 2023, which relate to the YE 2022 across our investments.

Community Reforestation, Ghana

The project is restoring degraded forest reserves in Ghana with teak, indigenous trees and natural forest in riparian buffer zones, following the principles and criteria of the Forest Stewardship Council (FSC). The project works closely with local farmers.



Section 3

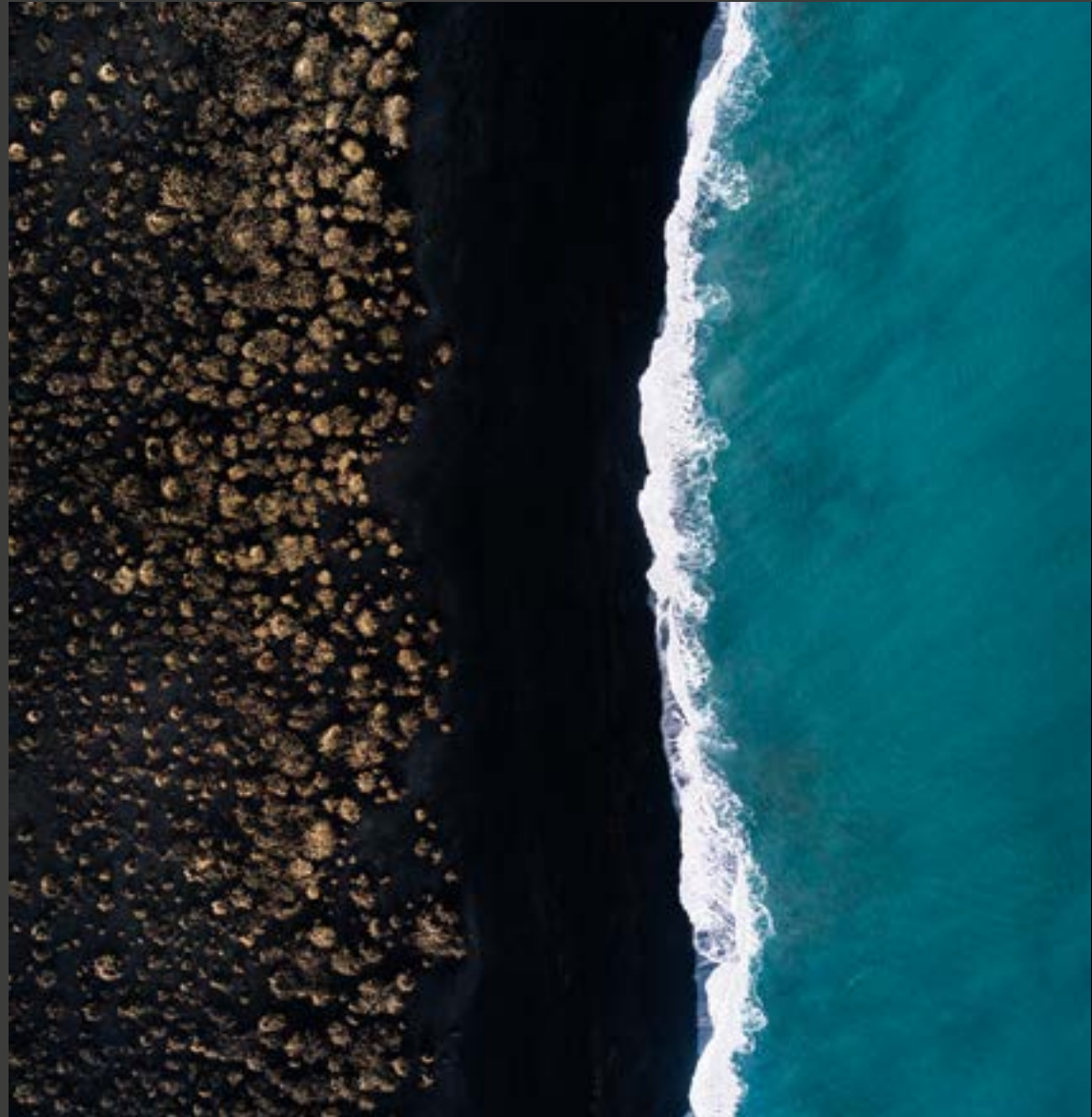
Scenario analysis

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Stress testing our corporate bond portfolio

We undertake climate scenario analysis to consider how different, highly uncertain climate-related risks may affect our business; reviewing results against our qualitative judgement and then refining our risk management approach where appropriate. We intend to continue developing our climate scenario analysis capabilities in 2024.



Stress testing our corporate bond portfolio continued

Scenario analysis and scenarios selected

As outlined in last year’s report, our scenario analysis on our corporate portfolio explores four climate scenarios, three from the Network for Greening the Financial System (NGFS) and one from the UN PRI Inevitable Policy Response (IPR) scenarios.



Key ■ Low Impact ■ Medium Impact ■ High Impact

Scenario	Forecast Policy Scenario (PRI)	Net Zero 2050 (NGFS)	Delayed Transition (NGFS)	Hot House World (NGFS)
Transition risk	Medium	Medium	High	Low
Physical risk	Low	Low	Medium	High
Description	Represents a high conviction scenario of likely policy developments to reflect “real world” climate policies. Policies implemented by 2025 Paris Ratchet.	Transition to a Net Zero emissions economy starts immediately, with stringent policies and innovation limiting global warming to below 1.5°C.	Implementation of policies to drive transition implemented after 2030, resulting in a more sudden and disorderly trajectory.	No new climate policies introduced beyond those already implemented. Without action, greenhouse gas emissions continue to rise.
Temperature by end of scenario	Below 2°C	Below 1.5°C	Below 2°C	Over 3°C
Use case	Explores performance under current forecasts. Useful contrast.	Potential outcomes of achieving 1.5°C target.	Greatest stress for entities with high emissions and transition risk.	Greatest stress for entities most exposed to physical risk.

Stress testing our corporate bond portfolio continued

The United Nations Principles for Responsible Investment (UN PRI) Forecast Policy Response (FPR) scenario models the impact of forecasted policies on the real economy to 2050, based on detailed effects of all emitting sectors.

The scenario anticipates policies will be adopted by the 2025 Paris Ratchet to limit warming to 1.8°C by 2100, with changes driven by corporate, civil and investor pressure, as well as climate impacts, changing weather patterns, and technology development. In contrast to NGFS scenarios described below, the Forecast Policy Response does not rely too heavily on carbon taxes to reach its objectives. Rather, additional policies within the energy and transport sectors (e.g. bans on internal combustion engines) are expected to help support decarbonisation.

The Network for Greening the Financial System (NGFS) has developed a range of climate scenarios which are broadly like the scenarios developed by the Intergovernmental Panel on Climate Change (IPCC). The scenarios cover an array of decarbonisation pathways, adapted to be directly relevant to the financial sector, with climate outcomes translated into impacts on macroeconomic variables, government policy (specifically a carbon tax) and certain asset prices. This allows potential impacts on company revenues and expenses to be modelled.

We believe these scenarios highlight the inherent uncertainty around how the decarbonisation of the global economy will ultimately play out. More details can be found in our 2022 Climate Report¹.

Implementing scenario analysis

Like last year, we have used Planetrics, a McKinsey & Co. company, as our chosen scenario analysis vendor for our corporate portfolio and details of their methodology can be found in our 2022 Climate Report.² Their bottom-up model allows us to quantify the impacts of climate risk on a company-by-company basis, disaggregated into transition risk, carbon costs and changes in demand arising from the transition to a low carbon economy and physical risk, arising from the macroeconomic impacts of acute (e.g., extreme weather events) and chronic (e.g., sea level rise) physical risks.

Projected changes to a given issuer's earnings are translated into rating and probability of default changes that can be aggregated for the portion of the portfolio that we have data for, which is similar to last year. We assess climate risk with and without assuming companies meet their climate targets³, representing the bookends of potential outcomes in the various climate scenarios.

Outputs and interpretation

At a total portfolio level, the overall results were very similar to those we presented in our 2022 Climate Report. Net Zero 2050 is the scenario in which the portfolio has the highest transition risk with the Delayed Transition scenario also presenting fairly similar results.

1. P43–p51, Climate Report 2022, <https://www.rothesay.com/media/f11a4jfg/rothesay-climate-report-2022.pdf>

2. This report has been created by Rothesay drawing on selected data provided by Planetrics, a McKinsey & Company solution (which does not include investment advice). This report represents Rothesay's own selection of applicable scenarios selection and/or its own portfolio data. Rothesay is solely responsible for, and this report represents, such scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.

3. Modelling considers both decarbonisation and revenue mix targets.

Stress testing our corporate bond portfolio continued

The analysis has been used to identify higher-risk climate sectors, in particular Automotives, Energy, Real Estate, Retail, Transportation and Utilities, which has been represented in the heatmap below.

Sector	Risk RAG Status ¹		
	2030	2040	2050
Asset Backed	G	G	G
Automotive	R	R	R
Banking	G	G	G
Basic Industry	A	A	A
Capital Goods	G	A	A
Consumer Goods	G	A	A
Energy	A	R	R
Financial Services	A	A	A
Government Guaranteed	G	G	G
Healthcare	G	G	G
Insurance	G	G	G
Leisure	G	G	G
Local Authority	G	G	G
Media	G	G	G
Real Estate	R	R	R
Retail	G	R	R
Services	G	G	G
Technology & Electronics	G	G	G
Telecommunications	G	G	G
Transportation	R	R	R
Utilities	R	R	R

R = Red A = Amber G = Green

1. RAG status based on the proportion of the sector downgraded by 2030, 2040 and 2050 respectively.

These sectors largely align with those monitored in our existing qualitative climate scoring framework that forms part of our investment judgement. The framework identifies carbon intensive sectors including Energy, Transportation and Utilities, and assesses the ability of individual issuers operating in these sectors to transition credibly.

The largest exposure to climate risk comes from the Utilities sector, which also sees significant variation in stressed outcomes, reflecting the size of exposure to the sector and its importance in reducing emissions through investment in renewables and electricity networks. Alongside Utilities, both Automotive and Energy sectors also presented significant variation in stressed outcomes, indicating both the potential vulnerability of the sectors as well as the importance of our issuer selection approach being focused on strong performers to help manage these risks.

It is unsurprising that these sectors will be significantly affected by transition risk given emissions and capital intensity, as well as revenues derived from high carbon products. Within the Energy sector, oil and gas majors continue to face downgrades with no upside in climate transition scenarios if climate targets are not met as global energy mixes are expected to shift away from fossil fuels towards renewables and other cleaner forms of energy. Our exposure to oil and gas majors remains small (below 1%) and is focused on those companies which are better positioned for transition.

Stress testing our property portfolio

The geographic breakdown of our portfolio demonstrates limited direct exposure to locations most exposed to physical risk. We have identified flood risk in our property portfolio as the most material physical risk within the investment portfolio and therefore have taken specific measures to integrate flood risk in our risk management processes.

The details of our flood assessment approach on our UK property portfolio were outlined in our 2021 ESG Report¹. It showed that our risk to flooding does not pose a significant financial risk, but to better support ongoing management, last year we refined the underwriting

process with a number of our mortgage lending partners by replacing the flood check which used the Environment Agency's flood map for planning with a more granular data set provided by Royal HeskoningDHV, previously Ambiental, and which differentiates between individual buildings, and provides an individual assessment and score.

For our residential mortgage loans in the Netherlands, our origination partner provides us with a monthly report regarding flood risk impact in terms of expected loss on our portfolio, which remains a small proportion of the current property value after considering defences present in the Netherlands.

When assessing transition risk in our property portfolio (distinct from our corporate portfolio scenario analysis) we have continued to use the Bank of England (BoE) scenarios as published in their 2021 CBES, allowing for inflation on the estimated costs, as part of our ongoing review to assess the impact on the Equity Release Mortgage portfolio. Stresses to property values indicated a small reduction in the mortgage portfolio value like last year should such measures be brought in.

Limitations of corporate and property analysis

- Gaps in corporate bond issuer data:** For many issuers it is difficult to obtain all the data required for a successful model run.
- Corporate modelling simplifications:** Necessary simplifications have had to be implemented for pragmatic reasons. These also include the credibility of company targets and sector-specific features such as competitive (or monopoly) positions, cost recovery or technological progress.
- Physical risk modelling for corporate bonds:** Physical risk is often geographically concentrated in a handful of assets and currently, there are data challenges in identifying concentrated physical risks.
- EPC and emissions data for property modelling:** EPC data availability remains a limitation in our analysis, along with accurate costs to upgrade EPC ratings via heat pump solutions and therefore we take these results with a degree of caution until data availability improves.
- Static portfolio approach:** Scenarios have been employed ignoring potential management responses to climate change.
- Stress severity:** Some of the most severe impacts we can expect from climate change, such as tipping points and feedback loops, have not been modelled given the significant uncertainties and methodological challenges associated with modelling these impacts.



1. P32-p37, Environmental, Social and Governance Report 2021, <https://www.rothesay.com/media/lp0n5guy/rothesay-esg-report-2021-pdf.pdf>

Stress testing our property portfolio continued

Portfolio resilience

- 1. Diversification of investment portfolio:** Across and within sectors helps us avoid concentration risk.
- 2. Limited exposure to price risk:** Our investment philosophy of matching liability durations versus other investors that may trade in and out of positions frequently reduces our exposure to bond price risk.
- 3. In-house investment capabilities:** Our ability to manage our investment book in-house gives us the flexibility to trade out of positions as a last resort that don't respond to active engagement.

Management response

- 1. Development of our climate scenario analysis capabilities:** In 2024, we intend to conduct a detailed materiality assessment and gap analysis to identify key areas of climate risk within the investment portfolio and work with data vendors to find potential resolutions for low data coverage or data quality.
- 2. Monitor higher-risk sectors:** Identified using climate scenario analysis in our qualitative climate scoring framework that forms part of our investment judgement. For those issuers and sectors that carry more material downside risk under some scenarios, we will consider the appropriate response for those sectors, including within our ORSA, within our wider risk management and investment strategy.
- 3. Asset Selection Approach:** Our orientation and asset selection is focused on well-positioned issuers with a robust transition plan.
- 4. Improve EPC data:** Via several of the lenders that we partner with to offer Equity Release Mortgages, we offer free EPCs to improve the data used in our analysis. This provides us with estimated CO₂ emissions and property ratings for the actual properties in our portfolio.



Section 4

Risk management

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Our risk management approach

Our climate risk management approach is fully embedded within our Risk Management Framework as part of a holistic approach for the identification, measurement, and monitoring of risks.

Rothsay's approach is set out in our Risk Management Framework and our public Responsible Investment and Stewardship Policy.

The framework requires the application of clear risk management processes at the point of asset purchase, during receipt of assets through pension risk transfers and then throughout the holding period of all our investments. This includes screening for any exclusions as outlined in the Strategy section of this document. We continue to develop, and quantify where possible, our assessment of these climate risks.

This work is led by a team of dedicated ESG analysts, who support the analysis of climate issues and facilitate the embedding of climate-related considerations across the business.

Our process for the identification, assessment and management of risks relies on a broad range of sustainability factors. From a climate perspective, our framework considers physical, transition and liability climate risks. Climate risk can materialise through many of our key risk channels and so climate is seen as a cross-cutting risk, though the channel through which its effect is greatest is credit risk. As well as in this report, we outline the management of sustainability risks within our ORSA.

Two of our business's Key Risk Indicators (KRIs) relate to the Carbon Intensity of our portfolio: one for the total portfolio and one for the PTCO sub-portfolio. In both cases we are managing towards a 50% reduction in the Carbon Intensity by 2030. This information is included within our Management Information which is regularly shared with management on a weekly basis as well as regularly with the Sustainability Committee, Executive Risk Committee, and the Board.

We manage our overall portfolio exposure to climate and broader sustainability risks by utilising both qualitative and quantitative metrics. These include quantitative indices (e.g. the Carbon Intensity of the portfolio) which we monitor at portfolio, sector and individual issuer level. We also manage our climate risk exposure at the issuer level by assessing ongoing developments in their climate risk management strategy and performance against target metrics, including Carbon Intensity and emissions reductions. This aligns the risk management of our investments for the benefit of our policyholders, with real-economy decarbonisation. These will be discussed in further detail in the Metrics and targets section of this report.

We take a materiality-based approach to the management and prioritisation of climate-related risks. Heightened scrutiny, based on clear materiality thresholds, is triggered as the associated climate risk or opportunity increases to ensure focus is on those entities with the greatest likelihood of having a significant impact on our exposure to risk. From a climate perspective, our focus is on financing the transition to Net Zero by preferentially investing in entities with clear transition plans and which are instrumental in effecting real-economy emission reductions. Where climate issues are current and deemed significantly material based on internal assessment, issuers may be added to the Credit Watchlist, as appropriate per the existing risk framework.

Our risk management approach continued

We continue to refine our climate scoring approach to identify, prioritise and assess assets with elevated exposure to climate risk, for which more detailed analysis is undertaken. A score is allocated to all issuers within the portfolio based on the materiality of climate impacts.

This climate score supports our assessment of an issuer's exposure to transitional and physical climate impacts and enables us to assess the nature, likelihood and magnitude of risks identified. On a scale of 0–5, those issuers screening at 3 or above are deemed to have material climate sensitivity.

This is based on a combination of:

- a sector score reflecting the challenges posed by the response to climate change in terms of long-term demand and available abatement technology; and
- an issuer transition score which reflects an assessment of the effectiveness and credibility of the issuer's response and management of transition risk.

The identification of high transition risk issuers considers the below parameters within the scoring process to assess the potential size and scope of potential climate-related risks:

1. Issuer operation in either a high transition risk sector (carbon intensive sector) or supporting climate mitigation/abatement (climate opportunity)
2. High current emissions (identified as 4x our portfolio average)
3. Issuer progress in managing transition (inputs to this assessment include the quality and ambition of targets, SBTi alignment and issuer track record in managing emission reductions)

Evidence of high transition risk which is not being effectively managed is also likely to result in higher litigation risk. Qualitative assessment of this risk is also captured in our issuer assessment. The scoring framework also considers a physical risk assessment for investments with relatively fixed geographic location.

The use of scores provides a quick and easy way to understand climate exposure within our existing risk framework and is updated as the targets and/or performance of an issuer evolves. Changes to scores and percentage of market value (MV) of material climate issuers in our portfolio are regularly reported in management information shared with the Executive and Board Risk Committees.

Issuers with high climate scores are natural candidates to be included in our programme of engagement.

Our risk management strategy for climate includes consideration of duration and liquidity of positions. If an issuer is running material climate risk but we have some questions about their strategy, we may opt for shorter dated maturities or the most liquid securities. This helps us to ensure we can adapt our approach and appropriately respond as longer-term climate-related impacts crystallise, or issuers do not align with our ongoing expectations.

We record our money market funds alignment with the Sustainable Finance Disclosure Regulation (SFDR). In 2023, most of our funds remained Article 8 Aligned.

Where Rothesay funds the origination of mortgages in the UK, our lending criteria include a specification of the type of properties that are acceptable including factors such as construction, location, and environmental perils such as flood risk.

Where an asset needs to be rated internally, any climate risk that is material to the credit risk arising during the life of the investment is expected to be captured during the assessment.

We have a variety of external bodies whose views, publications and rules we take into account in relation to the way we, as a financial services company, should respond to climate change.

Our risk management approach continued

We have formalised our ESG horizon scanning process, which has a large focus on climate elements through the creation of a specific Sustainability Committee sub-group, responsible for proactively identifying, evaluating, and determining the necessary next steps, where required, to align with sustainability-related mandatory requirements and best practice. In 2023, this has been particularly focused on ensuring we are able to evidence our alignment with the FCA's anti-greenwashing rule to be implemented under PS23/16 Sustainability Disclosure Requirements (SDR) and investment labels.

Geographic variations

Our investment strategy for our portfolio is focused on investments in OECD countries. This reflects the management of our portfolio to protect policyholder interests and align with our sustainable and stewardship goals, due to the robust regulatory frameworks and transparency of these jurisdictions. Consideration of environmental and social concerns are also regularly included in regulatory and legislation expectations, encouraging public reporting and responsible business practices of companies operating in these regions.

Rothesay's investment portfolio is focused on highly rated assets in the UK, US, EU, and Australia. While the EU and UK are generally thought to have made more progress in reducing emissions, we assess numerous investment opportunities in the US and Australia that can contribute to the transition because there is more decarbonisation to be done there.

To reflect geographic differences appropriately, we have undertaken comparisons of peers within specific sectors and geographies to understand strong and weak performers not just within sectors globally, but also within operating regions.

We have higher expectations for UK and European companies, and as part of our engagement, we expect more advanced transition risk management, with greater investment in green technologies and wider adoption of science-based targets. In contrast, while we accept that US and Australian companies may have made less progress to date, we provide clear guidance on our expectations, and may choose to invest in shorter duration and liquid bonds which allow us to divest if it becomes clear they are misaligned with our sustainability objectives.

Physical risk considerations

As previously noted, while we accept investments with transition risk, where this is being effectively managed, we seek to avoid material physical risk. Most of our exposure is within jurisdictions with lower comparative physical risk, however there are still some regions where specific aspects of physical risk could have material impacts. This is most material for investments tied to locations with elevated exposure to physical risks such as flooding or wildfire, including corporates with operations concentrated in susceptible regions such as our utility and non-profit healthcare issuers based in California. As part of our Executive Risk Committee approval process, an entity's exposure to physical climate risk is assessed.

This includes geographical vulnerability to certain hazards (e.g. flooding or wildfire), adaptation actions in place to reduce risk and broader considerations such as insurability. Screening for the array of perils across geographies and all investments is a challenge, but we are seeking to enhance our capabilities with discussions underway with potential data vendors.



Carbon intensive sectors

9.5% of Rothesay's portfolio at YE23 was invested in sectors that we deem the most carbon intensive.

Climate risks manifest in several ways. It may be that a company engaged in activity that produces high emissions will face policy risk. Or perhaps a company's supply chain could be threatened if, for example, a raw material's supply was restricted by a flood or a drought. To identify and monitor these sectors, we review our sector exposure and consider exposure to climate risk through assessment of concentration of emissions, industry guidance and analyst views.

We conduct a mapping exercise of our portfolio against industry codes to classify each asset. GICS codes are prioritised (see table for mapping) but NACE codes and where appropriate analyst judgement (for example, where no code is available due to it being a private asset, but underlying asset activity is known) are also used when needed.

9.5% of Rothesay's portfolio at YE23 was invested in sectors that we deem the most carbon intensive. The key sectors at risk include Transport, Materials, Oil and Gas, and Utilities.

Sector	GICS Industry	
Materials	Aluminium	Gold
	Building Products	Precious Metals & Minerals
	Construction Materials	Silver
Oil and Gas	Coal & Consumable Fuels	Oil & Gas Exploration & Production
	Integrated Oil & Gas	Oil & Gas Refining & Marketing
	Oil & Gas Drilling	Oil & Gas Storage & Transportation
Transport	Air Freight & Logistics	Auto Parts & Equipment
	Airlines	Automobile Manufacturers
	Airport Services	Highways & Railtracks
	Marine	Motorcycle Manufacturers
	Marine Ports & Services	
Utilities	Electric Utilities	Multi-Utilities
	Gas Utilities	Renewable Electricity
	Independent Power Producers & Energy Traders	

Sector	% Portfolio in Carbon Intensive Sector	
	YE23	YE22
Materials	0.1%	0.1%
Oil and Gas	0.4%	0.5%
Transport (excl. Rail)	2.8%	2.0%
Utilities	6.2%	6.7%
Total	9.5%	9.3%

The increase on the year in this number is by no means inconsistent with our decarbonisation goals.

Indeed one cannot finance decarbonisation, without deploying capital to currently carbon intensive industries with credible plans for transition. Our investments to support the transition continue to be predominantly deployed in the traditional Utilities sector but we also have an allocation in Pure Renewables (0.3%).

Carbon intensive sectors continued

Our internal climate scorecard considers the specific activities and exposure of entities operating in these sectors to determine whether additional monitoring and scoring is required. This creates a Rothsay-specific view of the most material climate sectors within our portfolio. Where an entity has most of their activity taking place in one of these sectors, they are subject to additional analysis and allocated a “climate material” score on our climate scorecard. Where an entity is highly dependent on one of these sectors, this is also taken into consideration under this framework.

As discussed in the earlier Engage section, engagement is a critical part of our climate risk management framework. We utilise engagement to ensure we maintain an appropriate understanding of risks to which our borrowers are exposed and promote positive change where possible. Our engagement covers a broad range of stakeholders including a particular focus on issuers within our investment portfolio alongside pension fund trustees, industry groups and regulators and policyholders, to support us in effectively managing our climate-related risks.

Position statements

Rothsay’s responsible investment strategy takes a case-by-case risk-based analysis approach. This involves considering the individual characteristics of our investments, including climate factors, to support appropriate decision making. This means we do not, in general, need to rely on policies of exclusion because our risk analysis will preclude material investment in issuers usually caught by such policies.

“Climate opportunity” financing

We monitor investments that we classify under the umbrella term “climate opportunity”. This group of assets captures entities that, after review under Rothsay’s sustainability framework, have been deemed to meet the following definition:

“We consider climate opportunities to be investments that finance activities such as renewable energy, low carbon energy, energy efficiency projects and pollution control.” In 2023, 1.7% of our portfolio (+0.4% YoY) was classified this way, with the majority of the exposure coming from low carbon energy issuers.

While the absence of an exclusion policy should not be taken as evidence of material holdings in a sector, there are some areas relating to fossil fuels, where we have chosen, for the avoidance of doubt, to make public explicit exclusions in relation to our investment appetite. This includes no financing of new direct thermal coal activity and no investment in companies that derive more than 10% of their revenue from the production of controversial oil and gas. Full details can be found in our Responsible Investment and Stewardship Policy.



Section 5

Metrics and targets

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Our portfolio metrics



Rothesay is committed to transitioning our investment portfolio to Net Zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5°C above pre-industrial levels as outlined in the Paris Agreement.



Our targets

To track progress on the transition of the investment portfolio to Net Zero, we have a number of additional targets in place:

Target	Base Year Value (2020 unless stated otherwise)	2023 Value	Change vs Base Year (%)
20% reduction in the Carbon Intensity of our portfolio by 2025	211 ¹	128	-39%
50% reduction in the Carbon Intensity of our PTC aligned sub-portfolio by 2050	222 ²	135	-39%
1.5°C portfolio temperature alignment	2.7°C (2021)	2.2°C	N/A

1. These numbers were rebased in our 2021 ESG Report due to data adjustments. Details can be found in our 2021 ESG Report.

2. These numbers were rebased in our 2021 ESG Report.

In the following assessments, in addition to publishing the numbers as completely and transparently as possible, we try to explain drawbacks and unintuitive features of the metrics we use. We also look to attribute the drivers behind year-on-year changes in our metrics, whether they are caused by genuine emission reductions, issuer revenues or changes in our estimation methodology.

This year we have made meaningful changes to the methodology of our Social Housing assets and one of our Sub-Sovereign investments. Further information on scope and methodology of our climate data can be found in the Appendix on pages 76-80 of this report.

Our portfolio metrics continued

Our climate metrics

- **Carbon Intensity:** Each year, we undertake an exercise to measure Carbon Intensity across as much of the portfolio as possible, including all issuers in high emissions sectors. While a revenue-based measure of Carbon Intensity allows for comparisons among the broadest range of issuers, it has the drawback, in inflationary times, of flattering the steepness of emissions declines as revenue increases become disconnected from production increases. We actively monitor the impact of trading decisions and issuer actions on CI reductions, and with an eye on our targets, we have developed weekly internal reporting to follow the evolution of the Carbon Intensity as the portfolio's composition varies, be that due to trading or to changes in market levels for FX and interest rates. We also report a PCAF data quality score for this metric.
- **Financed Emissions:** Tracking the share of issuer emissions for which Rothesay can be deemed responsible by virtue of the portion of their balance sheet we finance is at first sight more useful. For the Financed Emissions of a growing business like ours, however, one needs to try to separate the effects of issuer activity from that of additional assets. The obvious way to do that is to track Financed Emissions per unit invested (often called Carbon Footprint), though we note that this also fails to provide a pure measure of decarbonisation, given the market value denominator is affected by wider factors such as FX and interest rate movements. We also lend to several issuers for whom it is easy to obtain revenues but not possible to find the size of the full balance sheet and so lower coverage is a shortcoming.
- This year we are reporting an additional level of breakdown for Carbon Intensity, showing the attribution of changes for our total and PTCF portfolios. These are split between the following categories:
 - Methodology changes
 - Trading actions
 - Issuer revenue changes
 - Issuer emission changes
 - Other market impacts (e.g. exchange rates)



Our portfolio metrics continued

Data sources and availability

With climate change firmly embedded into our risk management framework, climate data is of increased importance as we look to monitor our exposure to climate risks and opportunities. When conducting active portfolio management, the need for accurate and up-to-date data is imperative when making buy/sell decisions.

We have primarily used climate data from Bloomberg, MSCI, CDP and Planetrics for this Climate Report.

The Appendix of this report outlines the scope and methodology for our portfolio metrics, including details of our Carbon Intensity estimates.

Aggregated Carbon Intensity for the Rothsay Investment Portfolio

Rothsay reports the Carbon Intensity (CI) of our investment portfolio on a revenue basis, covering Scope 1 and Scope 2 emissions for the constituent issuing entities. For Rothsay these make up the bulk of our Scope 3 emissions and we analyse them independently from the rest of the emissions with which the firm is associated.

For our portfolio, as constituted at year end 2023, the average Carbon Intensity was 128 tCO₂e/mmUSD revenue, a reduction of 30% from our portfolio CI at year end 2022. Note that due to misalignment between the publishing of emissions data and our reporting dates, this disclosure is based on data reported by companies in 2023, which is related to their 2022 financial year data.

Scope 3 emissions

Our portfolio climate metrics are reported based on the Scope 1 & 2 emissions of issuers within our portfolio. This is where the most consistent and available data exists. However, issuer Scope 3 emissions can be fundamental to gaining a full understanding of potential climate risk and of the likelihood of issuers meeting their Net Zero targets.

Scope 3 emissions are the result of activities elsewhere in the value chain of the entity, i.e. indirect emissions. These include emissions produced through purchased goods and services, business travel, use of products sold and investments. Given their diverse nature and reliance on disclosure by other parties, disclosure rates by companies remain low (44% of our total portfolio), compared to 93% Scope 1 & 2 and this reporting is not always comprehensive. For example, it is common for entities to only disclose business travel emissions, given these are more easily calculated and required by certain disclosure regulation (e.g. UK SECR requirements). This means that while an entity discloses some Scope 3 emissions, these may not be complete and therefore provide an inaccurate reflection of their activities reducing comparability. Given these limitations we do not currently disclose the Carbon Intensity of our investments on a total (Scope 1–3) basis.

Category	Any Scope 3
Supra/Sov/Public	12%
Corporate	90%
Property	38%
Total	44%

Where we find it useful for analysis of issuers in our internal climate risk framework, such as our climate scorecard for climate material sectors, we do consider relevant Scope 3 data. These emissions are particularly relevant and necessary to assess the full environmental impact of some sectors' activities. For example, in the oil and gas sector, Scope 3 emissions, derived from customers burning the issuers' product, reflect around 75% of total emissions. We assess the comprehensiveness of Scope 3 reporting as well as the extent to which transition plans and targets consider the full value chain and anticipate a reduction in demand. Where an entity is misaligned with these expectations, this is reflected in a downgrade in their climate score and identified as an engagement area. This ensures we take actions to drive the closure of material data gaps and are well-positioned to make informed investment decisions.

Case study

Social Housing
and Scope 3
emissions

As noted above, for 2023 we have changed the classification of the emissions associated with Social Housing issuers to ensure all our property emissions align with recent guidance from PCAF on owner occupied vs leased properties. In previous years, we have treated these entities as collections of dwellings and captured tenant emissions within Scope 1 & 2. In the last year it has become more common for registered providers to disclose their emissions and they do so as corporations. This means they classify tenant emissions as Scope 3 while their Scope 1 & 2 emissions encompass essentially only those associated with powering their office premises.

We recognise that tenant (and broader Scope 3) emissions reflect the most material aspect of Social Housing emissions; indeed, the table below indicates that the fraction is over 90%. These emissions mostly comprise tenant usage (e.g. energy for heating) but also include a component related to purchased goods and business travel. For our portfolio, 53% of issuers disclose some form of emissions, whilst 34% disclose tenant-related emissions. Full supply chain emissions, especially from purchased goods and services, are still not commonly reported.

Category	S1 & 2 WACI (tCO ₂ e/\$m)	S1, 2 & 3 WACI (tCO ₂ e/\$m)	Data Coverage (S1 & 2 disclosure)	Data Coverage (S3 tenant emissions)
Social Housing	18	295	53%	34%

Managing transition risk in this sector: EPC Ratings

Whilst tenant emissions are not fully under the control of social housing providers, they are able to influence this source of emissions through energy efficiency measures. In the UK, the energy performance of housing stock is assessed using Energy Performance Certificate (EPC) ratings. EPCs are based on data about a building's energy features, for example, the building materials used, the heating systems and insulation.

Compared to the average EPC in England and Wales (EPC D), social housing has a higher median energy efficiency score of C.

In September 2023, the regulatory requirement for all rental properties to have an EPC rating of C by 2025 was removed, with operators encouraged to take action only on a best-efforts basis. Across the sector, the UK Government identified that only approximately 25% of providers have made firm energy efficiency commitments. However, for our portfolio, all providers have remained committed to minimum EPC ratings of C by 2030 at the latest for new tenancies. These commitments, alongside other initiatives such as information sharing with residents on energy saving, will support the decarbonisation of their housing stock. We will continue to monitor disclosure and EPC improvement trends for the entities we finance to support our management of climate-related risks and ensure we are supporting well-positioned issuers.

EPC Rating	% Social Housing Homes in UK (2020)
A-B	2
C	54%
D	39%
E	4%
F	1%

Top 5 Largest Positions in Our Portfolio	% Properties Currently EPC C or Higher
Issuer A	73%
Issuer B	70%
Issuer C	66%
Issuer D	80%
Issuer E	77%

Our portfolio metrics continued

Portfolio breakdown

This table shows a detailed breakdown of movements in Carbon Intensity (CI) by asset class. Details on the methodology used for each asset class can be found in the Appendix.

PCAF Score is a metric developed by the Partnership for Carbon Accounting Financials which expresses the quality of an estimate of emissions data on a scale from 1 to 5. Further details on this metric can be found on the following page.

Category	Weighted Average CI (tCO ₂ e/\$m)	PCAF Score	Data Coverage (% MV)	Covered MV	Total MV	2022 YE Adj. WACI (tCO ₂ e/\$m)	YoY Change % vs 2022
Supra/Sov/Public	143	2.8	94%	21,150	22,571	196	-27%
UK Sovereign	130		100%			138	-6%
UK Sovereign Guaranteed	32		83%			32	0%
US Sovereign	281		100%			287	-2%
EU Sovereigns	221		100%			304	-27%
Other Sovereigns	332		100%			327	1%
Supranationals	0		100%			0	4%
UK Sub-Sovereigns	57		100%			97	-41%
EU Sub-Sovereigns	71		100%			38	85%
Other Sub-Sovereigns	1,167		80%			2,172	-46%
UK Public Finance	21		100%			31	-33%
US Public Finance	44		81%			47	-6%
Corporate	139	1.4	94%	17,151	18,186	163	-15%
Infrastructure and Utilities	339		94%			457	-26%
Other Corporate Bonds	23		95%			27	-18%
Covered Bonds	1		100%			2	-49%
Secured Financing	5		68%			7	-23%
Bonds with CDS protection	18		100%			20	-10%
Property	103	3.3	92%	19,801	21,433	193	-47%
Ground Rent Funding	142		100%			173	-18%
Social Housing	18		100%			292	-94%
REITs	44		89%			74	-41%
UK Mortgages	207		100%			244	-15%
Dutch Mortgages	82		100%			83	-1%
CRE	45		66%			79	-43%
UK FFT	185		100%			215	-14%
Overall Portfolio (ex. UCTIS MM Fund/Cash)	128	2.5	93%	58,102	62,189	183	-30%

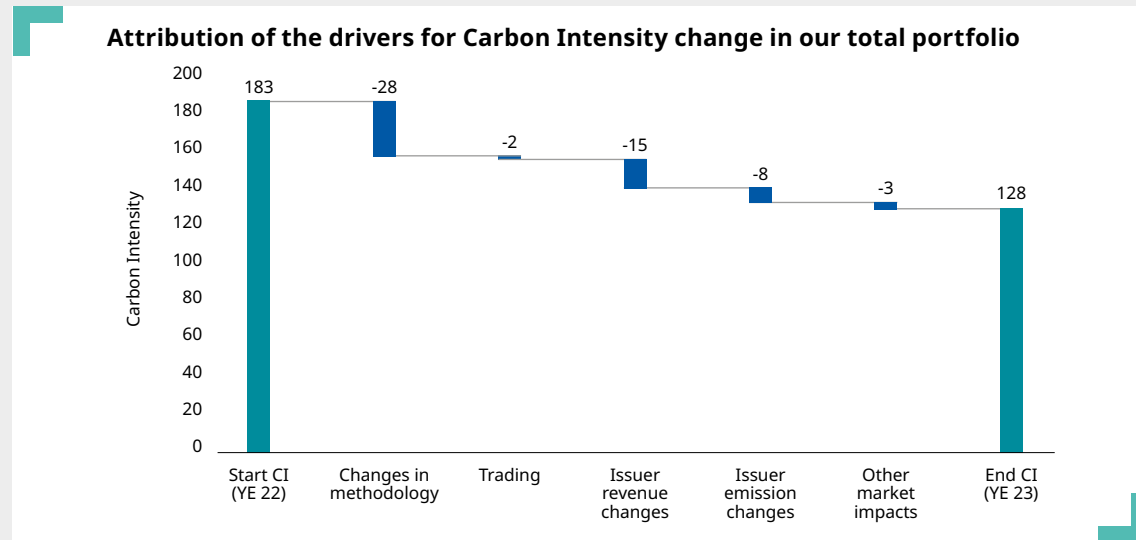
Our portfolio metrics continued

Portfolio breakdown continued

As mentioned previously, we made meaningful changes to the CI methodology for our Social Housing and Sub-Sovereign assets, resulting in a CI fall of around 28 points from YE 22. Accounting for these changes, we still saw an additional 27 point drop from other factors.

As with last year, year-on-year revenue increases have had a significant impact on our portfolio CI reduction, largely as a result of inflationary effects and the lack of major COVID restrictions in 2022. However, our investments also saw a general reduction in emissions during 2022, particularly in our Property and Corporate-linked asset classes.

Often there are significant global events that can have material short-term impacts on the revenues and emissions of our investments. For Rothesay, this reinforces the need to set and monitor targets over medium to long-term time periods and ensure that issuers can implement and carry out their emission reduction plans before we make a divestment decision. It also demonstrates the need to check that the metrics we follow are serving the purpose for which they were intended: to determine whether emissions are falling fast enough to avoid the worst consequences of climate change.



Data coverage and quality

As mentioned earlier in the Risk management section, one of the key objectives of our engagement approach is the drive for increased and improved climate disclosure across our investments.

One of the key challenges of climate data remains the availability and transparency of entity reported emissions data. To help assess these issues, we use the PCAF quality scores, based upon data quality scorecards, developed by PCAF, which assess the standard of climate data on a scale of 1 to 5. A score of 1 indicates that an entity has reported emissions data that has been verified by a third party, while a score of 5 indicates that estimates have been made using limited available data.

Our portfolio score at year end 2023 was 2.5. Although this figure is consistent with our portfolio at year end 2022, we have seen positive improvements in the reporting of our Property portfolio with the PCAF score improving from 3.6 to 3.3.

Category	Supra/Sov/ Public	Corporate	Property	Total
PCAF Score	2.8	1.4	3.3	2.5

Data coverage and quality remain key focus areas for our engagement strategy, and we will continue to encourage improved climate-related disclosures for our investment portfolio and work to source additional climate data to help fill any remaining gaps.

Our portfolio metrics continued

Publicly traded corporate debt (PTCD) sub-portfolio

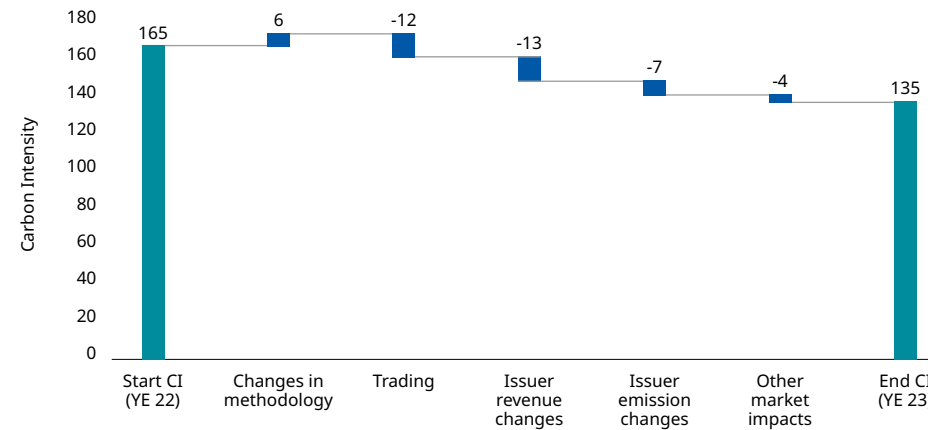
We track the CI of both the whole portfolio and our PTCD sub-portfolio, defined as listed issuers with an ISIN and reported data in the Corporate category (excluding Secured Financing) together with the REITs component of the Property category. The PTCD sub-portfolio has a size of £17bn and represents 26% of the full portfolio.

Last year we set a new commitment to reduce the CI of our PTCD sub-portfolio by 50% by 2030. This year we have seen good progress against this target with a decline of 18% to 135 tCO₂e/mmUSD.

PTCD Sub-Portfolio	2023	2022	2021	2020
Weighted Average CI (tCO ₂ /\$m)	135	165	184	222
YoY Change	-18%	-10%	-17%	

Again, it is important to assess what is directly driving year-on-year changes in our portfolio CI. Methodology change increases have been caused by the inclusion of estimated emission values into the PTCD portfolio for the first time this year (we previously only included reported data). As with the total portfolio, issuer revenue increases have a large effect, especially among investments in the Energy sector due to short-term demand increases. We expect that this will reverse to an extent for next year's reporting. Despite this, we are pleased that there have also been meaningful contributions from issuer emission reductions and investment decisions taken by our Trading team throughout the year.

Attribution of the drivers for Carbon Intensity change in our PTCD portfolio



Our portfolio metrics continued

Financed Emissions

In our 2021 ESG Report we provided, for the first time, an inventory for the Financed Emissions of our investment portfolio. The following table is the updated version for 2023.

As a reminder, when we calculate the percentage allocation to Rothesay of an issuer's emissions the numerator in the fraction is our nominal holding while the denominator is a measure of the total balance sheet size of the issuer.

The denominator chosen varies by asset class as follows:

1. For property loans it is the market value of the property
2. For corporate bonds it is the EVIC (market value of equity plus nominal value of debt including cash) of the corporation
3. For sovereigns it is the GDP measured in 2017 Purchasing Power Parity USD

The Financed Emissions for an issuer can equivalently be expressed as the product of the nominal holding and the issuer Carbon Intensity per EVIC. These individual CIs per EVIC can be combined to yield a portfolio weighted average just as we do for CI per revenue.

Finally, we express the Financed Emissions per mGBP of investment. This is our Carbon Footprint and is identical to the WACI per EVIC modulo the presence of nominal values rather than market values in its definition.

Our approach to the calculation of EVIC and Financed Emissions is to closely align with the Partnership of Carbon Accounting Financials (PCAF) methodology.¹

Overall, we have seen a 16% increase in our Financed Emissions to 4.1m tCO₂e (YE22: 3.5m tCO₂e), driven by an increase in portfolio size, but a 16% reduction in corresponding weighted average Carbon Intensity per EVIC to 74 tCO₂e per mGBP (YE22: 88 tCO₂e). The Carbon Footprint is 76 tCO₂e per mGBP (YE22: 86 tCO₂e). We have once again seen improvements in the coverage of this metric, and we are now able to report for 87% of our portfolio.

1. Further information on this methodology can be found in the Appendix and PCAF guidance which can be accessed here: <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>



Our portfolio metrics continued

Category	Financed Emissions (tCO ₂ e) (000s)	2022 YE WACI per EVIC (tCO ₂ e/£m EVIC)	Data Coverage EVIC (% MV)	Covered MV (£m)
Supra/Sov/Public	3,055	150	88%	19,762
UK Sovereign	2,036	160	100%	
UK Sovereign Guaranteed	6	2	63%	
US Sovereign	510	347	100%	
EU Sovereigns	44	267	100%	
Other Sovereigns	36	409	100%	
Supranationals	<1	0	100%	
UK Sub-Sovereigns	5	8	76%	
EU Sub-Sovereigns	21	50	100%	
Other Sub-Sovereigns	309	747	80%	
UK Public Finance	6	27	100%	
US Public Finance	82	49	67%	
Corporate	866	54	88%	16,077
Infrastructure and Utilities	732	125	85%	
Other Corporate Bonds	130	14	91%	
Covered Bonds	<1	0	100%	
Secured Financing	<1	1	68%	
Bonds with CDS	3	34	100%	
Property	167	8	84%	18,104
Ground Rent Funding	27	7	100%	
Social Housing	15	4	85%	
REITs	8	3	62%	
UK Mortgages	90	13	100%	
Dutch Mortgages	14	11	100%	
CRE	12	5	66%	
UK FFT	1	13	100%	
Overall Portfolio (ex. UCTIS MM Fund/Cash)	4,088	74	87%	53,944



Our portfolio metrics continued

Portfolio temperature alignment

Where data is relevant and available, we use temperature alignment scores to provide an additional dimension to our understanding of the climate characteristics of our holdings. This score is an all-encompassing forward-looking metric that gives consideration to the expected trajectory of a company's emissions from now to 2050 and compares it with a carbon budget compatible with 1.5°C that has been allocated to the company based upon both the difficulty of decarbonising its sector and the current scale of production of the company. The greater the margin by which the company is expected to exceed its budget the more its temperature score exceeds 1.5°C.

Although very promising in theory, these types of scores are still in their infancy and should be treated with caution given their complexity and reliance on underlying data that may lack comprehensiveness and quality. Not only is the budget allocation somewhat subjective, but so is the estimation of the emissions trajectory which depends heavily on the reliance placed on any corporate targets being met.

We have assessed the temperature alignment score of our liquid corporate credit sub-portfolio (where data is most widely available) and continued to use the data provider MSCI. Thanks to improved data availability we have included a new bottom-up approach to calculating overall portfolio temperature alignment score. This approach, more granular in some ways, does not rely on weighting individual issuer scores, rather it compares the aggregate issuer carbon budget that we are financing and compares it with the aggregate actual emissions we would expect to finance on behalf of the same issuers.

For 2023 our temperature alignment score was 2.2°C (a reduction from the result of 2.6°C reported in last year's report).

It is worth noting that this change is impacted by factors, outside of changes in the composition of our portfolio, that have had material impacts on final scores:

- An increase in coverage (from 87% to 93% market value)
- A material change to MSCI's methodology, resulting in temperature scores generally increasing in most sectors

It is therefore important to recognise the limitations of this metric in its current state. Methodologies continue to evolve, which may lead to changes in scores in future too, irrespective of company action.

Portfolio temperature score	
Scope 1 & 2 weighted by Financed Emissions	2.2
Scope 1, 2 & 3 weighted by Financed Emissions	2.7
MV weighting	2.0
Bottom-up Financed Emissions approach Scope 1, 2 & 3	1.9

We provide further information below to help understand the make-up of the portfolio score, dividing it into temperature categories. This shows 63% of our portfolio is Paris aligned (or better).

Temperature	MV %	Emissions %
<1.5°C	29%	20%
Paris aligned (1.5–2°C)	34%	18%
2–3°C	26%	41%
>3°C	11%	21%

Broader metrics

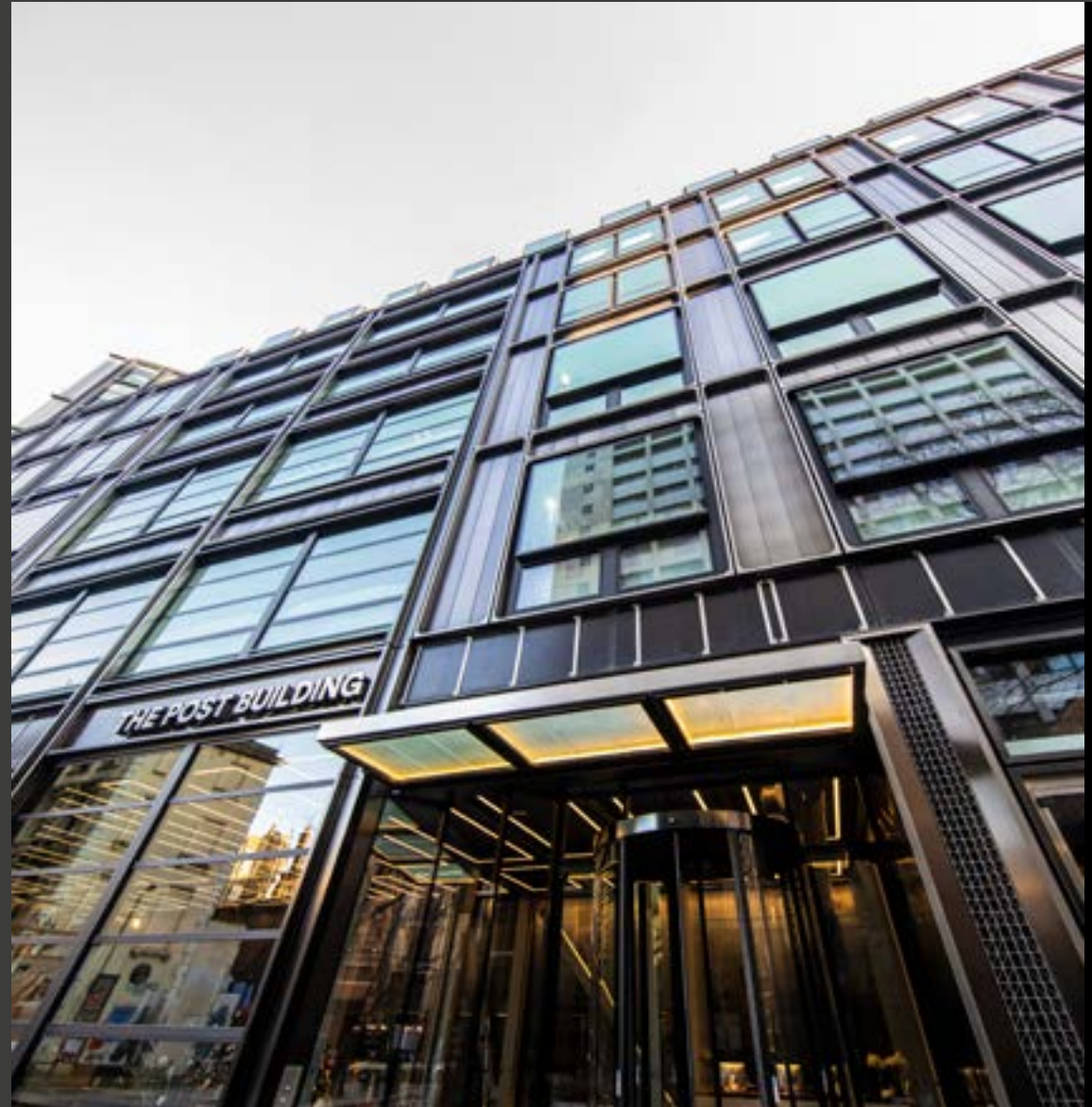
	YE23 (% MV Allocated)	YE22 (% MV Allocated)
Exposure to Material Climate Sectors	9.5%	9.3%
Climate Opportunity Financing	1.7%	1.3%
SBTi Alignment (commitment and/or approved targets)	49% (PTCD portfolio)	51%
SBTi Alignment (approved only)	42% (PTCD portfolio)	40%

As outlined in the Risk Management section, we monitor and report our exposure both to material climate sectors and climate opportunities. We have seen an increase in the percentage of the portfolio with SBTi committed or approved targets. This is reported on our PTCD sub-portfolio (88% coverage) given the SBTi methodology is only available for corporate companies (not applicable for sovereign and standalone property). This information is also monitored within our climate scorecard as part of our transition assessment for each entity that meets the criteria for this assessment.

Our operational metrics

Our Streamlined Energy and Carbon Reporting aligned emissions

Rothesay is committed to lowering our own operational emissions and our UK office has been supplied by 100% renewable energy since the beginning of 2021, as certified by the Carbon Trust. The following table displays Rothesay's energy consumption, CO₂ and other greenhouse gas emissions, and emissions intensity metrics for 2023, 2022 and 2021, as per SECR requirements.



Our operational metrics continued

We consider the market-based metric to be the most accurate reflection of our emissions, as it reflects the actual emissions associated with the electricity that Rothesay has consumed. We have also included location-based metrics for comparison. They use the average emissions associated with the electricity grid of the UK.

		2023	2022	2021
Energy consumption (kWh)		1.444m	1.138m	1.215m
Total CO₂e emissions (in tonnes)	Market based	55	60	112
	Location based	293	217	240
Scope 1 CO ₂ e emissions (tonnes) ¹		52	57	111
Scope 2 CO ₂ e emissions (tonnes) ²	Market based	-	-	-
	Location based	238	158	129
Scope 3 CO ₂ e emissions (tonnes) ³		2.9	2.7	0.4
Carbon dioxide emissions intensity				
Total CO₂e tonnes per FTE	Market based	0.1	0.2	0.3
	Location based	0.7	0.6	0.7

1. Scope 1 covers CO₂ emissions occurring from sources owned or controlled by Rothesay (e.g. gas). These are primarily calculated using meter readings, with the Area Method used to estimate Rothesay's contribution for communal office areas as detailed by The Climate Registry's General Reporting Protocol v3.0.
2. Scope 2 covers CO₂ emissions from the generation of electricity purchased by Rothesay. These are primarily calculated using meter readings, with the Area Method used to estimate Rothesay's contribution for communal office areas. Location-based values are estimated using conversion factors from the UK Government's GHG conversion factors for company reporting in 2023.
3. Scope 3 covers CO₂ emissions occurring from business travel in rental or employee-owned vehicles where Rothesay is responsible for purchasing the fuel. These are estimated from total mileage by using the "Average car" and "Petrol" conversion factor from the UK Government's GHG conversion factors for company reporting in 2023.

We have also estimated the operational emissions arising from our US and Australian offices, which was occupied by a combined 16 full time employees at year end 2023. With detailed meter readings not available, emissions have been estimated through our percentage occupation of total office floor space.

US/Australian Offices	2023	2022
Energy consumption (kWh)	0.081m	0.064m
Total CO₂e emissions (in tonnes)	19	13
Scope 1 CO ₂ e emissions (tonnes)	<1	<1
Scope 2 CO ₂ e emissions (tonnes)	19	13
CO₂e emissions intensity		
Total CO₂e tonnes per FTE	1.2	1.1

Our operational metrics continued

Determining our operational Scope 3 emissions

Last year, we engaged Supercritical to gain further understanding of the Scope 3 emissions for which we are responsible. This analysis, on our operational emissions in 2022, focused on gathering data for areas that are most applicable for our business operations. We have not conducted a full reassessment this year, but have conducted internal analysis to estimate our business travel emissions for 2023, as these have grown materially since 2022. Data is available in the table adjacent.

Our business travel emissions grew in 2023 to 1,041 tCO₂e. As mentioned previously, this is influenced by a combination of our growing international footprint, and the residual impacts of COVID on travel at the beginning of 2022. We will continue to monitor and manage these emissions over the coming years. Note that we have included the impact of radiative forcing when calculating our flight-based emissions.

No.	GHG protocol categories	Footprint (tCO ₂ e)	Includes
1	Purchased goods & services*	3,861.3	Cloud, Food, Software, Digital marketing, Consultants, Insurance, Shipping, Furniture, Office supplies, Training, Cleaning, Maintenance, Textiles, and Merchandise
2	Capital goods*	19.1	Hardware
3	Fuel- and energy-related activities*	115.3	Upstream emissions of purchased fuels and electricity (including that associated with business travel, commuting and electricity transmission and distribution losses)
4	Upstream transportation & distribution	Not applicable	Not applicable
5	Waste generated in operations*	0.1	Wastewater from the offices
6	Business travel	1,041	Flights, trains and taxis
7	Employee commuting*	179.7	From employee survey
8	Upstream leased assets*	0.1	Energy and water used in leased offices
9	Downstream transportation & distribution	Not applicable	Not applicable
10	Processing of sold products	Not applicable	Not applicable
11	Use of sold products	Not applicable	Not applicable
12	End of life treatment of sold products	Not applicable	Not applicable
13	Downstream leased assets	Not applicable	Not applicable
14	Franchises	Not applicable	Not applicable
15	Investments – Financed Emissions	See Financed Emissions	Includes Scope 1 & 2 emissions of our investments – further information is provided in Our Portfolio metrics section above

* Refers to 2022 data.

Our operational metrics continued

Waste

Rothesay has estimated its production of waste in the UK office as a fraction of the total building's waste pro-rated by floor space. Recycled waste now represents 36% of our total waste output, up from 31% in 2022.

In 2023 Rothesay's people produced an average of 122kg of waste per employee (106kg per employee in 2022).

The Post Building – Rothesay share (kg)

Stream	2023	2022
Recycled	19,312	12,737
Anaerobic digestion	9,940	9,953
Waste to energy	24,391	18,002
Total	53,643	40,692

Water

Rothesay's water consumption in our UK office, as a fraction of the total building's water usage pro-rated by floor space, was 4,242m³ in 2023.



Section 6

Appendix

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Glossary

The multitude of terms and acronyms used in climate and sustainability discussions can often be challenging to understand. Rothesay is committed to ensuring our disclosures are clear, and not misleading. This glossary clearly sets out Rothesay's definition for each term and how these should be interpreted.

Term	Definition
Absolute Emissions	The total emissions of greenhouse gases (GHG) a company emits in a year. The various GHGs have different warming potentials, so they are converted into CO ₂ equivalents so total emissions can be compared appropriately across companies.
Carbon Footprint	The total greenhouse gas emissions produced by an individual, entity or activity, expressed in CO ₂ equivalent (CO ₂ e).
Carbon Intensity (CI) – general	Absolute emissions will vary reflecting the size of the company, as well as the “dirtiness” of their operations. Carbon intensity measures are used to adjust for company size, to better compare this “dirtiness”. There are different measures of Carbon Intensity.
Carbon Intensity (CI) – revenue basis	Carbon dioxide equivalent emissions per million dollars of revenue (CO ₂ e/\$m): This metric measures the carbon efficiency of a company's economic output.
CI reductions	Refers to value for CI going down during the stated time period. This may be driven by a number of factors, and it does not necessarily refer to a genuine reduction in greenhouse gases being emitted.
Carbon Neutral	Carbon dioxide emissions are balanced by carbon removed through activities such as carbon sinks or permanent carbon removal technologies such as direct air capture.
Carbon Offsets	An action intended to compensate for the emission of carbon dioxide into the atmosphere as a result of industrial or other human activity, especially when quantified and traded as part of a commercial scheme.
climate material	Lower case usage Indicates an entity/sector/activity that has a greater likelihood of having a significant impact on our exposure to climate risk. Climate material (lower case) is used to indicate the broader approach to materiality assessment.
Climate Material	Upper case usage Indicates an entity/sector/activity that after review under Rothesay's sustainability framework has been deemed to have significant exposure to climate risk. Entities deemed to be Climate Material (upper case) have specific characteristics that increase exposure to impacts from climate change and require additional monitoring.
Climate Scenario	A hypothetical but realistic representation of future environment constructed to support investigation of the potential impacts of climate change.
climate opportunities/ climate solutions	Lower case usage General term to discuss activities that relate to efforts to mitigate and adapt to climate change such as adoption of low emission energy sources, development of new products/services to support climate transition and building resilience.
Climate Opportunities	Upper case usage Indicates an entity/sector/activity that after review under Rothesay's sustainability framework has been deemed to meet criteria of specifically financing green opportunities, such as renewable energy investments, low carbon energy and verified green bonds.

Glossary continued

Term	Definition
CO₂e	Carbon dioxide equivalent – greenhouse gases (GHGs) all have varying warming potentials and therefore in order to report one metric, other GHGs are converted to CO ₂ equivalent.
Corporate Social Responsibility	Management approach concept that seeks to encourage high standards of ethics and professionalism and positively impacts society through its culture and business processes.
Engagement	Interactions and dialogue conducted between an investor and a current or potential investee (e.g. company), or a non-issuer stakeholder (e.g. an external investment manager or policymaker) to gain information or influence investee practice or disclosure.
Escalation	Escalation in the context of stewardship is the approach an investor takes if initial stewardship approaches are unsuccessful at achieving its objectives over a given time period. Escalation differs by asset class and investor type, but generally involves the use of increasingly assertive stewardship tools and activities, including reducing or exiting an investment.
ESG	Environmental, Social and Governance – a set of standards measuring a business's impact on society, the environment, and how transparent and accountable it is. Environmental factors focus on how an entity considers the environment, social factors focus on how an entity considers societal impacts, including employees, communities and stakeholders, and governance factors focus on an entity's operational approach and leadership.
EVIC	Enterprise value including cash. EVIC is defined as the company enterprise value without deduction of cash (EVIC) of the respective issuer. When data is sourced from Bloomberg this is calculated as Market Capitalisation + Enterprise Value Components + Cash and Marketable Securities. For other companies this corresponds to the total company equity and debt.
Financed Emissions	The emissions associated with our investments, in line with the GHG Protocol Scope 3 Category 15 definition.
Financed Emissions – reductions	Refers to the value of emissions that Rothesay are directly financing going down during the stated time period. This may be driven by a number of factors, and it does not necessarily refer to a genuine reduction in greenhouse gases being emitted by an entity.
Green	The concept that some activities are beneficial for the physical environment, based on an assessment against an appropriate set of criteria or benchmarks.
Green Bond	Bond instrument whose proceeds will be applied exclusively to finance or refinance, in part or in full, new and/or existing projects which contribute to stated and verified environmental objectives.
Green Taxonomy	A system that aims to classify whether an economic activity meets specific criteria, such as alignment with Net Zero or specific sustainable goals.
Greenhouse Gas Protocol	A global framework outlining best practice for measurement and management of greenhouse gas emissions.
Greenhouse Gas (GHG) Emissions	Gases that contribute to the greenhouse effect by trapping heat in the Earth's atmosphere.
Implied Temperature Rise (ITR)	A forward-looking temperature alignment metric that indicates how companies and investment portfolios align to global climate targets. It compares an entity/portfolio projected greenhouse gas emissions against a specific carbon budget and calculates an estimated overshoot or undershoot. This overshoot or undershoot is expressed in °C.

Glossary continued

Term	Definition
Inevitable Policy Response (IPR)	A type of climate transition scenario analysis that considers risks and opportunities associated with a forecast or 1.5°C required acceleration of policy responses to climate change.
Material ESG/ Climate Factors	ESG factors with a substantial impact on the current and future financial, economic, reputational and legal prospects of an issuer, security, investment or asset class. This term may also refer to factors related to significant impacts on people or planet. At a corporate or issuer level, the disclosure of a material ESG factor would be reasonably expected by investors, as its omission, misstatement or obscuring could reasonably be expected to influence decisions that investors make on the basis of that reporting.
Net Zero	A state in which the human derived GHGs going into the atmosphere (anthropogenic emissions) are balanced by their removal out of the atmosphere (carbon sinks/removal).
Paris Aligned	Actions and financial flows that are consistent with the Paris Agreement's long-term goal of limiting global warming to well below 2°C and pursuing 1.5°C above pre-industrial levels.
Physical Climate Risk	Risks resulting from climatic events including acute and chronic impacts. Acute risks include droughts, floods, and wildfires. Chronic risks include rising temperatures, sea level rise, and an accelerating loss of biodiversity.
Publicly Traded Corporate Debt Portfolio (PTCD)	A sub-portfolio of our total portfolio comprised of listed issuers with an ISIN and reported data in the Corporate category (excluding Secured Financing) together with the REITs component of the Property category.
Radiative Forcing	The increased climate impact caused by flight-based emissions occurring higher up in the atmosphere than land-based emissions.
Real Economy Impact/ Decarbonisation	Refers to decarbonisation in the real economy which relates to the production, purchase and flow of goods and services within an economy, rather than financial economy (value of financial markets). Real economy decarbonisation relates to actual reduction in total GHG emissions being emitted and actions that directly result in this outcome.
Responsible Investment	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.
Science-Based Target	A target, usually relating to emission reductions, that has been developed in line with scientific pathways to keep global warming below 2°C from pre-industrial levels.
Scope 1 Emissions	Measured in tCO ₂ e annually. Direct emissions that occur from sources controlled by the entity in question. For example, emissions from a gas-fired boiler on company premises.
Scope 2 Emissions	Measured in tCO ₂ e annually. Indirect emissions largely associated with the purchase of electricity by the entity in questions to operate their business and buildings including purchased electricity, municipal heating and cooling. Scope 2 emissions can be calculated as Location based – operational emissions using an average emissions intensity for the energy system on which energy consumption occurs (e.g. the emissions intensity of the local electricity grid) – or Market based – operational emissions using actual energy consumption of an entity (e.g. giving credit for renewable energy or green electricity tariffs sourced by the company).
Scope 3 Emissions	Measured in tCO ₂ e annually. Emissions that are the result of activities elsewhere in the value chain of the entity in question. These include emissions produced indirectly, through purchased goods and services, business travel, employee commuting, and investments. The Scope 3 emissions of one entity are the Scope 1 & 2 emissions of other entities.

Glossary continued

Term	Definition
Shared Socioeconomic Pathways (SSP)	A set of climate change scenarios projecting socioeconomic global changes up to 2100.
Streamlined Energy and Carbon Reporting (SECR)	Reporting on the energy use, carbon emissions and emissions intensity associated with our UK operations. It is calculated and reported in line with the Greenhouse Gas Protocol disclosure principles.
Stewardship	The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
Sustainability	A dynamic process that guarantees the persistence of natural and human systems in an equitable manner.
Sustainable	An activity that causes, or is made in a way that causes, little or no damage to the environment and therefore able to continue for a long time.
Sustainability Risks	An environmental, social or governance (ESG) event or impact that could cause a negative impact including financial and reputational.
Systematic Sustainability Issues	Issues that pose systematic risks to the common economic, environmental and social assets on which returns and beneficiary interests depend. Systematic risk refers to risks transmitted through financial markets and economies that affect aggregate outcomes, such as broad market returns or stability.
Temperature Alignment	A forward-looking metric that attempts to convey the future trajectory of greenhouse gas emissions of a given entity or portfolio in terms of its estimated global temperature rise.
Transition Climate Risk	Risks associated with the requirements for an entity to manage and adapt to changes related to reduction in greenhouse gas emissions and transition to a low carbon economy.
Transition Finance	Relates to the provision of financing to entities/activities that have high current emissions but have credible, verified plans that will result in steeply declining emissions in line with sector decarbonisation pathways.
Transition Plan	A transition plan sets out an organisation's approach for how it will align all its activities to Net Zero.
Weighted Average Carbon Intensity (WACI)	WACI can be considered at a company, sector or portfolio level. It is a measure of a portfolio's exposure to carbon intensive companies, where each position is weighted reflecting size of position in our portfolio.

Glossary continued

Organisations

Term	Definition
A4S	Accounting for Sustainability – organisation that seeks to inspire action by finance leaders to drive a fundamental shift towards resilient business models and a sustainable economy.
CFRF	Climate Financial Risk Forum.
FCA	Financial Conduct Authority – the UK regulatory body that regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.
IPCC	The Intergovernmental Panel on Climate Change (IPCC) – an intergovernmental body of the United Nations. Its job is to advance scientific knowledge about climate change caused by human activities.
ISSB	The International Sustainability Standards Board – established by the International Financial Reporting Standard (IFRS) Foundation at COP 26. It has developed global sustainability standards to form a global baseline of sustainability information to support needs of investors. It includes IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.
NGFS	Network for Greening the Financial System – a network of central banks and financial supervisors that aim to accelerate the scaling up of green finance and develop recommendations for industry's role in climate change. NGFS climate scenarios bring together global set of transition pathways, physical climate change impacts and economic indicators.
NZAOA	UN-Convened Net Zero Asset Owner Alliance – a member-led initiative of institutional investors committed to transitioning their investment portfolios to net zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C.
PCAF	Partnership for Carbon Accounting Financials – a partnership that has developed standards for financial institutions measuring their investment-linked greenhouse gas emissions.
PRA	Prudential Regulation Authority – the PRA is the UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
SBTi	Science-based Targets Initiative – SBTi is an organisation established to support companies to set emission reduction targets in line with the reductions required to limit global temperature rise to 1.5°C. SBTi provides assurance that entities' targets are aligned with prevailing scientific goals for the relevant sector.
TCFD	Taskforce for Climate-related Financial Disclosures – an international initiative established by the Financial Stability Board (FSB) in 2015 to develop recommendations for disclosing climate-related financial risks and opportunities in various sectors of the economy.
TNFD	Taskforce for Nature-related Financial Disclosures – an international initiative that provides a framework for how organisations can address nature-based environmental risks and opportunities with the ultimate goal of channelling capital flows into positive action.
UN PRI	The UN Principles for Responsible Investment – an international organisation that works to promote the incorporation of environmental, social, and corporate governance factors (ESG) into investment decision-making.

Independent Limited Assurance Report

Grant Thornton UK LLP (“Grant Thornton” or “we”) were engaged by Rothesay Life Plc (“Rothesay”) to provide limited assurance over the Subject Matter Information described below.

Limited assurance conclusion

Based on the work we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Subject Matter Information has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of what we say in the remainder of this report.

Subject Matter Information

The scope of our work was limited to assurance over selected aspects of Rothesay’s TCFD Report (“the Report”) for the year ended 31 December 2023 highlighted with a “^” symbol and listed in the “Climate data summary table” section within the Appendix of the Report (“the Subject Matter Information”).

Our assurance does not extend to any other information that may be included in the Report for the current year or for previous periods unless otherwise indicated.

Reporting Criteria

The Reporting Criteria used for the measurement or evaluation of the Subject Matter Information and to form our judgements are Rothesay’s methodology as set out as in the “Emissions & climate metric methodology” section within the Appendix of the Report (“the Reporting Criteria”).

Inherent limitations

The absence of a significant body of established practice on which to draw to measure or evaluate the Subject Matter Information allows for different, but acceptable, measurement or evaluation techniques and can affect comparability between entities and over time. In particular we draw attention to the methodological and assumption-based limitations Rothesay have disclosed in the Reporting Criteria.

In instances where the underlying subject matter was agreed to third-party data sources, such as carbon emissions or financial information that had been self-reported by the issuers, we did not perform any testing over the source data.

Directors’ responsibilities

The Directors of Rothesay are responsible for:

- the design, implementation and maintenance of internal control relevant to the preparation and presentation of Subject Matter Information that is free from material misstatement, whether due to fraud or error;
- selecting and/or establishing suitable Reporting Criteria;
- measuring or evaluating and presenting the Subject Matter Information in accordance with the Reporting Criteria; and
- the preparation of the Report and the Reporting Criteria and their contents.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Subject Matter Information has been prepared in accordance with the Reporting Criteria;
- forming an independent limited assurance conclusion, based on the work we have performed and the evidence we have obtained; and
- reporting our limited assurance conclusion to Rothesay.

Our independence, professional standards and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control (UK) 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent Limited Assurance Report continued

Assurance standards and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits and Reviews of Historical Financial Information" ("ISAE 3000 (Revised)"), issued by the International Auditing and Assurance Standards Board ("IAASB"). This standard requires that we plan and perform this engagement to obtain limited assurance about whether the Subject Matter Information is free from material misstatement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks which vary in nature from, and are less in extent than for, a reasonable assurance engagement.

Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not report a reasonable assurance conclusion.

Work performed

Considering the circumstances of the engagement our work included, but was not restricted to:

- assessing the suitability of the Reporting Criteria as the basis of preparation for the Subject Matter Information;
- assessing the risk of material misstatement of the Subject Matter Information, whether due to fraud or error, and responding to the assessed risk as necessary in the circumstances;
- conducting interviews with relevant Rothesay management and examining selected documents to obtain an understanding of the processes, systems and controls in use for measuring or evaluating, recording, managing, collating and reporting the Subject Matter Information;
- performing selected limited substantive testing including agreeing a selection of the Subject Matter Information to corresponding supporting information;
- considering the appropriateness of a selection of selected carbon conversion factor calculations, other unit conversion factor calculations and other calculations used by Rothesay to prepare the Subject Matter Information including by reference to widely recognised and established conversion factors;
- recalculating a sample of EVIC values and agreeing the inputs to supporting documentation;
- evaluating the overall presentation of the Subject Matter Information; and
- reading the Report and narrative accompanying the Subject Matter Information in the Report with regard to the Reporting Criteria, and for consistency with our findings.

Intended use of this report

This limited assurance report, including our conclusion, is made solely to Rothesay in accordance with the terms of the agreement between us. Our work has been undertaken so that we might state to Rothesay those matters we are required to state to them in an independent limited assurance report and for no other purpose. We have not considered the interest of any other party in the Subject Matter Information.

To the fullest extent permitted by law, we do not accept or assume responsibility and deny any liability to any party other than Rothesay for our work or this report, including our conclusion.

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants

Cambridge

20 June 2024

The maintenance and integrity of Rothesay's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Subject Matter Information, the Report or the Reporting Criteria presented on Rothesay's website since the date of our limited assurance report.

Climate data summary

The table below summarises the data presented as part of this Climate Report.

Metric	Reported Unit	Reported Value	Location in report
Portfolio Carbon Intensity			
Total Portfolio WACI [^]	tCO ₂ e/\$m	128	Page 53
Total Portfolio PCAF Score	Score	2.5	Page 58
Total Portfolio Data Coverage	%	93	Page 57
PTCD Sub-Portfolio WACI [^]	tCO ₂ e/\$m	135	Page 59
Portfolio Financed Emissions			
Financed Emissions [^]	tCO ₂ e (000s)	4,088	Page 61
Carbon Intensity per EVIC [^]	tCO ₂ e/£m EVIC	74	Page 61
Carbon Footprint [^]	tCO ₂ e/£m	76	Page 60
Portfolio Temperature Alignment			
Scope 1 & 2 weighted by Financed Emissions	°C	2.2	Page 62
Scope 1, 2 & 3 weighted by Financed Emissions	°C	2.7	Page 62
MV weighting	°C	2.0	Page 62
Bottom-up Financed Emissions approach			
Scope 1, 2 & 3	°C	1.9	Page 62
Broader Portfolio Metrics			
Exposure to Material Climate Sectors	%	9.5	Page 50
Climate Opportunity Financing	%	1.7	Page 51
SBTi Alignment of PTCD Portfolio (commitment and/or approved targets)	%	49	Page 62
SBTi Alignment of PTCD Portfolio (approved only)	%	42	Page 62

Metric	Reported Unit	Reported Value	Location in report
UK Office Emissions			
SECR aligned Energy Consumption [^]	kWh millions	1.444	Page 64
SECR aligned Market-based Emissions [^]	Tonnes CO ₂ e	55	Page 64
SECR aligned Location-based Emissions [^]	Tonnes CO ₂ e	293	Page 64
SECR aligned Market-based Emissions Intensity [^]	Tonnes CO ₂ e/ FTE	0.1	Page 64
SECR aligned Location-based Emissions Intensity [^]	Tonnes CO ₂ e/ FTE	0.7	Page 64
UK Office Water & Waste			
Waste Usage	kg	53,643	Page 66
Water Usage	m ³	4,242	Page 66
US & Australian Office Emissions			
Scope 1 & 2 Energy Consumption	kWh millions	0.081	Page 64
Scope 1 & 2 Location-based Emissions	Tonnes CO ₂ e	19	Page 64
Scope 1 & 2 Location-based Emissions Intensity	Tonnes CO ₂ e/ FTE	1.2	Page 64

[^] Indicates that the presented item has received external assurance from Grant Thornton.

Emissions & climate metric methodology

Basis of methodology

- The basis for our reporting methodology is the Partnership for Carbon Accounting Financials (PCAF)'s Global GHG Accounting & Reporting Standard.

Calculating own operations emissions

Scope

- Data within Rothesay Climate Report relates to financial YE 2023.
- We follow the operational control approach to determine the emissions included in this report. We report in tCO₂e unless stated otherwise.
 - **Scope 1:** CO₂ emissions occurring from sources owned or controlled by Rothesay (e.g. gas).
 - Primarily calculated using meter readings, with the Area Method used to estimate Rothesay's contribution for communal office areas as detailed by The Climate Registry's General Reporting Protocol v3.0.
 - **Scope 2:** CO₂ emissions from the generation of electricity purchased.
 - Primarily calculated using meter readings, with the Area Method used to estimate Rothesay's contribution for communal office areas.

- Location-based values are estimated using conversion factors from the UK Government's GHG conversion factors for company reporting in 2023.
- Market-based values are calculated based on certified energy usage.
- We report on both a location and market basis.
- **Scope 3:** CO₂ emissions occurring from business travel in rental or employee-owned vehicles where Rothesay is responsible for purchasing the fuel AND portfolio emissions (tCO₂e) are part of our emission data on which we conducted external limited assurance.
 - For business travel these are estimated from total mileage by using the "Average car" and "Petrol" conversion factor from the UK Government's GHG conversion factors for company reporting in 2023. Miles travelled are estimated using expense reimbursement amount.
 - For Category 15: Investments please see below for more information.
- We have also calculated our wider business travel emissions. These have been calculated by using relevant factors from the UK Government's GHG conversion factors for company reporting in 2023.
- We have also presented expanded wider operational analysis from 2022, calculated through engagement with Supercritical.

Calculating portfolio metrics

Scope

- For our portfolio, emissions data within this report is, where possible, based on 2022 data, reported in 2023. For a subset of issuers where no new data has been published, 2021 data has been utilised.
- Due to the way in which companies publish their climate and ESG disclosures, the emissions data collected is assumed to relate to issuers' full year ending 2022.
- We choose to take reported market-based emissions data, where available, as this reflects that companies have chosen (or not chosen) to source cleaner electricity providers. Location-based is used where this is not available.
- Due to data availability, our primary focus remains on reporting Scope 1 and Scope 2 data. As availability and completeness for our issuers' Scope 3 emissions improves we will look to report this data.

Data sources

- We utilise a number of third-party data providers to calculate our climate metrics including:
 - Bloomberg
 - CDP (previously Carbon Disclosure Project)
 - MSCI Inc.

Emissions & climate metric methodology_{continued}

Data collation and reporting

- Sector and overall averages are calculated by weighting individual borrower carbon intensities by the market value of the corresponding assets as a proportion of the total market value of assets for which we have obtained data.
- For the majority of issuers (Corporates and Sub-Sovereigns) our first source for information is Bloomberg and/or CDP databases. Data is provided via CSV file and incorporated into our climate data files.
- We have taken the decision to include Forward Funded Bonds in our Climate Universe, where we have committed to purchase at a future date, as we will ultimately be responsible for these emissions.
- Where data is not available via our primary data providers, we seek to gap fill based on a materiality threshold. The initial basis of this materiality assessment is:
 - Entities operating in a climate material sector; and
 - Material MV holding of above £5m MV.
- The first stage of our gap filling exercise is to seek reported data through manually extracting the required data from issuer climate reporting/data published by industry bodies.
- It is not always possible to utilise sourced data for some issuers, for example our property-based lending and sovereign sub-portfolios due to data availability, or specific asset-based holdings so we calculate estimates where exclusions would be material to our WACI calculation.
- Such estimates are currently calculated based on the below materiality threshold which is higher than manual data sourcing given the necessity to use a number of assumptions in these calculations. It is therefore important that such estimates are reserved for where their exclusion would materially impact our metrics.
 - Entity operates in a climate material sector; and
 - Position size is above £100MV (either individual or sector basis) and initial assessment indicates that emissions associated are likely to meet our Carbon Intensity threshold (4x portfolio average).

Emissions & climate metric methodology continued

Internal estimate methodologies

The below table outlines where we have established an internal methodology review group who reviews and approves each estimate approach and assumptions in the calculation. Given the need for various assumptions these datapoints are not as exact as reported data – our approach seeks to “err on the side of the planet” in line with PCAF requirements where necessary.

Asset Class	Unit	Source	Description
Corporates	tCO ₂ e/\$m revenue	Bloomberg/CDP	Reported Scope 1 & 2 emissions data from entity divided by reported revenue.
Sovereign	tCO ₂ e/\$m of GDP	PRIMAP	The starting point for our Sovereign data is global and country GHG emissions based on International Energy Agency (IEA) datasets broken down by GHG. Some extrapolation is required to estimate the non-CO ₂ GHGs. Country-level emissions are divided by \$m of GDP (which represents the most similar metric to revenue at country level).
Public Finance: Healthcare	tCO ₂ e/\$m total operating revenue	Company Reporting/ Proxy data	Issuers with reported data used as proxies for wider sub-portfolio by working out average sector Carbon Intensity per scope. These Carbon Intensity values are then divided by revenue to calculate emissions. Revenue is derived from reported total operating revenue.
Property: FFT	tCO ₂ e/mmUSD achievable rent	Landmark/ Rightmove	Emissions estimate taken per EPC, where available through Landmark. Where no EPC is available, Landmark model the EPC information from neighbouring properties. Rental yield calculated using Rightmove data on each property. We use current valuation data rather than original property value (suggested by PCAF) as this data is more accurate.
Property: ERM	tCO ₂ e/mmUSD achievable rent	Landmark/ Rightmove	Emissions estimate taken per EPC, where available through Landmark. Where no EPC is available, Landmark model the EPC information from neighbouring properties or based on property characteristics. We use current valuation data rather than original property value (suggested by PCAF) as this data is more accurate. Rental yield calculated using Rightmove data using average house price and rental price based on specific regional bandings.
Property: DRM	tCO ₂ e/mmUSD achievable rent	DMFCO/ Pararius/CBS	Every property has been individually assessed for both its emissions (estimate based on energy label and/or floor area) and its achievable rent (€/m ² vs average sale price for owner occupied homes). We use current valuation data rather than original property value (suggested by PCAF) as this data is more accurate.

Emissions & climate metric methodology continued

Asset Class	Unit	Source	Description
Property: Ground Rents	tCO ₂ e/mmUSD achievable rent	Landmark/ Proxy Data	<p>Emissions estimate taken per EPC, where available through Landmark.</p> <p>Where no EPC is available, Landmark model the EPC information from neighbouring properties or based on property characteristics. We use current valuation data rather than original property value (suggested by PCAF) as this data is more accurate.</p> <p>Rental AVM used for each property, normalised by rental change over period.</p>
Property: Social Housing	tCO ₂ /\$m SHL turnover	Housing Expert/ Proxy Data	<p>Issuers with reported data used as proxies for wider sub-portfolio by working out average sector Carbon Intensity per scope. Emissions from SH offices and fleet remain included in Scope 1 & 2. Emissions from tenants excluded from Scope 1 & 2. These Carbon Intensity values are then divided by revenue to calculate emissions.</p> <p>Revenue is derived from total operational revenue.</p>
Property: Other RMBS	tCO ₂ e/mmUSD achievable rent	SEAI Report	<p>Residential mortgage backed securities (RMBS) follow the same methodology as our ERM portfolio, with the exception of the source of the CO₂ emissions per property which given Ireland jurisdiction are sourced through Sustainable Energy Authority of Ireland datasets.</p>
Project Finance: High Emission Intensity	tCO ₂ e/\$m	Various	<p>We hold a number of assets that are related to high intensity projects, that do not have reported data. For these assets we calculate a deal-specific, asset-level estimate of emissions and associated revenue. In these scenarios we seek to calculate emissions based on specific vessel type gCO₂ emission factors, matching revenue assumptions as closely as possible. For example,</p> <ul style="list-style-type: none"> • Aviation: gCO₂/occupied seat/km • Shipping: gCO₂ per vessel type <p>We acknowledge these estimates require a number of assumptions to form reasonable data points. We continue to review these methodologies to ensure they remain fit for purpose.</p>

Emissions & climate metric methodology_{continued}

Foreign exchange (FX) rate considerations

- Since climate metrics are impacted by currency conversion, we set the below approaches to ensure consistency:
 - Where data is provided by a third party, we take information as reported.
 - For estimate methodologies within property based fully on averages, we take the FX value of when the data was extracted.
 - For all other areas, average annual FX rates has been used.

Verification process

- We undertake a detailed internal verification process of our climate data. The numbers used have been checked for consistency with data from earlier years, with any outliers, defined by high YoY changes, being further investigated. High CI names and large holdings as outlined above are also checked.
- In addition, when reviewing estimate methodologies YoY, the governance process involves a discussion for any change to allow clear identification of rationale for YoY changes and any potential need to restate baseline figures.

We engaged Grant Thornton UK LLP to provide independent limited assurance over selected KPIs within the ESG data using the assurance standards ISAE 3000 (Revised) and ISAE 3410. Grant Thornton has issued an unqualified opinion over the selected data and the full assurance report can be found on pages 73-74.

Restatements and changes to portfolio

- Our approach captures all positions held on our balance sheet on 31 December 2023.
- Restatements may be made to previous data points where an error has been identified and/or methodology best practice has evolved. On these occasions, restated data will be clearly identified.

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