Rothesay

STEWARDSHIP REPORT 2023

Contents

Introduction

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.

To support this, Rothesay is dedicated to 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 Telent.

The pension risk transfer industry is currently very active, with higher 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. This allows us to proactively manage the composition of our investment portfolio. As a pensions 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 genuine 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.

Alongside the stewardship of our portfolio, we focus on creating a positive impact through all our operations and for all our stakeholders, including our people and wider community. This includes supporting initiatives such as #10,000 Black Interns, Tax Help and our Summer Cheer partnership with Iceland Foods. The Rothesay Foundation continues its mission to help improve the quality of life for older people in need in the UK.

The Financial Reporting Council (FRC) defines stewardship as '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'. Our risk assessed, outcome driven approach as outlined in this document aligns with our purpose to support to future of our policy holders. This document considers the twelve principles detailed in The UK Stewardship Code 2020. Unless stated otherwise, all activities and data presented in this report refer to 2023.

This report aligns with the FRC's definition of clients and beneficiaries to collectively describe a company's customers and main stakeholders. Our clients include our individual policyholders, and the trustee boards that represent their interests during a pension risk transfer transaction. Rothesay generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by Rothesay.

Message from the CEO

This is our third Stewardship Report, covering activities carried out in the year ending 31st December 2023. Within it, we are pleased to detail how stewardship and sustainability decisions have influenced the management of our investment portfolio throughout the year.

At Rothesay, we understand the clear link between our core investment objectives and the need to consider stewardship principles alongside sustainability-linked risks in our strategy and decision making. I am proud that our approach to the management of these risks and broader considerations allows us not only to achieve our primary goal of providing pension security to our policyholders, but also provide wider benefits to our stakeholders, the environment and society.

We believe that an important part of our role is to exert influence by engaging on stewardship concerns with issuers, service providers and our industry peers. Through these engagements we seek to encourage transparent disclosures on sustainability-related risks and improved stewardship practices.

Our approach to stewardship continues to evolve. In 2023, this included a restructuring of our sustainability governance to recognise its importance within our business strategy. We have also included examples of where we have applied our stewardship approach throughout the last year, and we look forward to sharing the further progress we make in 2024 as part of next year's report.

Tom Pearce

Chief Executive Officer

I. Purpose, strategy and culture

***Principle 1:** Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*

Our purpose, values and culture

As the UK's largest specialist pensions insurer our singular purpose is to secure pension annuities for the future, ensuring certainty to trustee boards and delivering good outcomes for all former pension scheme members that become our policyholders. We have always recognised the close link between sustainability and resilient long-term performance. Embedding good stewardship principles enables us to deliver good outcomes for our trustee board clients, policyholders, our people and our shareholders.

We reflect our commitment to the highest standards of integrity, transparency and accountability in our cultural values. These are set out below. They are the values we operate by, and they translate directly into how we assess and measure individual and collective performance and behaviours. Critically, our values define our decision-making and how we interact with our stakeholders:

1. **Original & Creative:** We are always looking for new ways to create and enhance security for our policyholders, manage risk and deliver reliable returns for our investors.
2. **Collaborative & Diverse:** We actively value difference, treating everyone as an individual with equal opportunity to thrive in their career. This helps us create a stronger, more dynamic business today and for the long term.
3. **Dedicated, Genuine & Accountable:** Our commitment to our trustee board clients and their members is paramount. It guides us in all aspects of our business. Our people take personal ownership of Rothesay's success, and we reward hard work, dedication and accountability.
4. **Meticulous & Fast-paced:** We are meticulous in everything we do and expect the highest standards from colleagues. We are always pushing ourselves to be at the forefront of our industry and will accept nothing but the best quality work.

Our clients

As a specialist pensions insurer we are engaged by the trustee boards of pension schemes who want to provide security for their defined benefit scheme members by transferring the annuities to pension risk management specialists, whilst also removing a potentially volatile liability from the company balance sheet.

Initially, our primary relationship is with the trustee boards of pension schemes. Once a contract moves from 'buy-in' to 'buy-out' our focus is on individual policyholders through our administration and servicing of their pension benefits. We strive to:

- Protect policyholder security, through effective management across all risks. This includes responsible stewardship of the investments supporting the pensions.
- Deliver good customer outcomes, with critical focus on the timeliness and accuracy of pension payments. Fundamentally, we aim to pay the right amount at the right time and communicate effectively with former pension scheme members in advance of their pension moving into payment.

These priorities inform all our actions, from our business model and investment strategy to the focus on service delivery.

Our business model and strategy

Underwrite the liabilities

In preparing to take on a new block of annuitant liabilities, we achieve maximum pre-deal certainty for trustee boards and their members through our meticulous underwriting and due diligence. We model the benefits of policyholders at an individual level and project these benefits to maturity. As a result, we can accurately estimate the cost of providing the insured benefits and holding the necessary risk capital. We scrutinise all new transactions to minimise risk while aiming to achieve returns for our investors that are sustainable. We have a long-term focus with the goal of releasing sufficient capital each year, as policies run off, to achieve returns for our investors and to be able to support the new contracts we have taken on.

Hedge the risks

We carefully assess all transactions before completion. We match the liabilities we will take on with appropriate assets. This gives certainty to our clients and protects our balance sheet. Alongside responsible asset selection, we are careful in our selection of derivative and reinsurance counterparties. We reinsure the majority of our exposure to longevity risk to mitigate losses should the life expectancies of our policyholders increase. In order that longevity risk and other hedged risks, such as interest rate and inflation risk, are not simply replaced by counterparty risk we make use of collateral arrangements, the management of which is an integral part of the Group's activities. We closely monitor collateral so that the value of our security is not compromised by market shifts.

Invest the assets

We seek to invest in assets: (i) where the cashflows that we receive in connection with that asset, match our liability cash flows (ii) which meet our sustainability objectives, and (iii) which provide an appropriate risk-adjusted return. To achieve this, we invest in investment grade bonds and loans. The median rating category for the portfolio is AA and it is made up of three diverse categories:

- Supranational, Sovereign and Public Finance bonds.
- Corporate Bonds and Infrastructure Lending.
- Bonds and Loans Secured by Property.

That strategy supports us to maintain a stable portfolio and avoid losses due to default. We have built a strong capital surplus and provided security to our policyholders and bondholders. This is recognised by our Fitch and Moody’s long term issuer credit ratings of A+/A2 respectively.

Deliver the pension benefits

We have strategic partnerships with several well-established pension administrators comprising Capita Employee Solutions, Willis Towers Watson (WTW) and Aptia (formally Mercer). Working with these partners gives us scale and contingency capabilities. High levels of automation and sophisticated technology enable our partners to interact with our systems to eliminate discrepancies and deliver good outcomes to our policyholders.

Our Investment Beliefs

Our investment beliefs comprise our fundamental priorities in delivering what we desire from the investments we make. Rothesay operates a prudent investment strategy. We seek to diversify exposure and actively manage risk. We are constantly looking for new ways to reduce risk and achieve the dependable returns that create genuine security for our policyholders' pensions in the future. This is reflected in Rothesay's key investment objectives:

- **Policyholder security:** To ensure that liabilities to policyholders can be met in full and in a timely manner via conservative balance sheet and liquidity management.
- **Balance sheet stability:** To maintain financial strength and solvency capitalisation in order to produce stable cashflows from in-force business.
- **Value-driven investment:** To take a quantitative view of risk where possible and invest in a manner that enhances shareholder value on a risk-adjusted basis.
- **Focus on asset-liability management:** To invest assets in a manner appropriate to the nature of the policyholder liabilities in order to reduce risk exposure and to take advantage of illiquidity premium.
- **Safeguard reputation**: To implement investment principles and a governance process that appropriately takes into account factors that are harder to quantify such as sustainability and reputation risks.
- **Sustainability Targets**: To support the attainment of our sustainability and climate objectives through our investment principles and risk framework.

We believe that the effective identification and management of sustainability risk is critical to the successful implementation of these objectives. We also see investing in sustainable opportunities, outlined in more detail below, as critical for ensuring we can deliver positive outcomes for all our stakeholders.

Actions taken to ensure our investment beliefs, strategy and culture enable effective stewardship

Long-term Investment Strategy

Our in-house team is responsible for the management of Rothesay's asset portfolio (over £60bn at year end 2023). This allows us to proactively manage the composition of our investment portfolio and identify assets that match our liability cash flows. We strive to deliver an appropriate risk-adjusted return in line with our Responsible Investment and Stewardship Policy.

Our sophisticated systems enable us to continuously monitor our risks and adapt to changing market conditions. This ensures we can quickly identify, quantify, and react to emerging risks or opportunities within our portfolio.

Sustainability Commitments

Rothesay has set out a number of sustainability commitments that reflect our objectives for the integration of sustainability considerations within our investment decision-making and risk management framework, as well as our wider investment strategy.

1. We will (i) transition our investment portfolio to Net Zero greenhouse gas emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures, and (ii) regularly report on progress, including establishing intermediate targets every five years in line with the Paris Agreement Article 4.9 ("Net Zero").[1]
2. We actively seek out opportunities to match our long-term investment horizon with investments that support our sustainability strategy.
3. While investments in some climate opportunities are currently too speculative for our risk appetite, we are committed to supporting efforts to encourage low carbon opportunities and financing climate solutions.
4. We incorporate broader sustainability factors into our investment analysis, decision-making and engagement processes thus giving appropriate consideration to Social & Governance and wider Environmental factors, including climate change.
5. We recognise the investment required by high emitters to transition to a low carbon future. We will therefore seek opportunities to finance high emission companies where they have robust and credible transition plans, recognising that this may increase our Carbon Intensity in the short term.
6. We actively seek to engage with issuers currently misaligned with our commitments, rather than pursue immediate divestment.

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. We are working on a Transition Plan to provide further guidance on actions to support our Net Zero goals. Further information can be found on p.12 of our Climate Report.

Climate Commitments

We have established the following climate commitments to support and evidence the decarbonisation of our own operations, as well as within our investment portfolio, as a core part of our business model.

OUR BUSINESS

- 100% renewable electricity provision to our UK office
- Carbon neutral for own operations since 2021, through verified carbon offsets.

OUR INVESTMENTS

Net Zero by 2050

- Commitment to transition our investment portfolio to net zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5 degrees above pre-industrial levels as outlined in the Paris Agreement.

2025 targets

- 20% reduction in publicly traded corporate debt portfolio (PTCD) Carbon Intensity (CI) (revenue basis) by 2025 – with the baseline set in 2020.
- 20% reduction in total portfolio Carbon Intensity (revenue basis) by 2025 – with baseline set in 2020.

2030 target

- 50% reduction in publicly traded corporate debt portfolio Carbon Intensity (revenue basis) by 2030 – with the same 2020 baseline.
- 50% reduction in total portfolio Carbon Intensity (revenue basis) by 2030 – with the same 2020 baseline.

[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. We are working on a Transition Plan to provide further guidance on actions to support our Net Zero goals, Further information can be found on p.12 of our Climate Report.

OUR INVESTMENTS (cont.)

Engagement

- Engage with at least 20 of our climate material issuers each year within our corporate bond sub-portfolio to maintain or enhance the value of assets.

Low-carbon Sectors

- We seek to partner with governments and industry to identify ways in which we can increase our lending to sectors which support a low carbon economy.

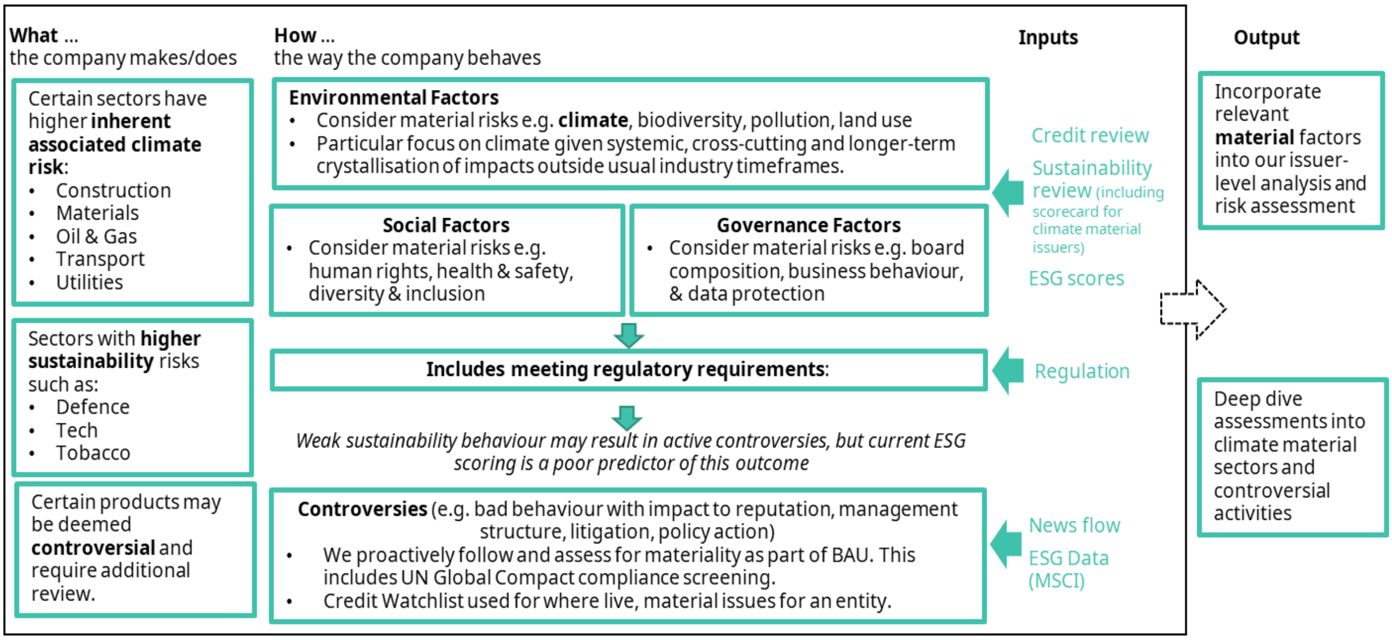
Formalising Our Approach to Sustainability Analysis

As described in our investment objectives, Rothesay's investment decision-making seeks to take a quantitative view of risk where possible and invest in a manner that both maximises policyholder security and enhances shareholder value on a risk-adjusted basis. This ensures that our investment strategy is aligned with the best interests of our clients and beneficiaries. A key part of effective stewardship is the identification, assessment and monitoring of financially material risks and opportunities.

In 2023, we continued to review and enhance our sustainability risk assessment framework. Our sustainability analysis considers both the 'what' and the 'how' of company behaviour, to reflect the range of ways in which sustainability risks and opportunities may arise. This utilises several third-party data inputs which are overlayed with internal analysis to support our assessment. In 2023, we formalised a revenue-based restriction on exposure 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. 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.

This framework is explained in greater detail in Principles VII and XI. These actions reflected feedback from pensions consultants, as well as recognition becoming more widespread amongst trustee boards. Whilst weak sustainability behaviour may result in active controversies, current sustainability scoring remains a poor predictor of outcomes. This is driven by these scores currently focusing on disclosure over impact, qualitative assessment requirements and a lack of standardisation. Due to this, whilst they can be an interesting data point, they are not used as a standalone decision-making metric. Our approach to sustainability integration is described in more detail under Principle VII.

Sustainability Investment Framework for Effective Stewardship



Assessment of effectiveness in serving the best interests of our clients

Rothesay's financial resilience is essential to securing the annuity incomes for our policyholders and supporting policymaker initiatives to deliver wider sustainability and economic benefits. As noted in our Annual Report, at the end of 2023 Rothesay had a solvency capital requirement coverage of 273% and reaffirmed credit ratings from Moody's and Fitch of A2 and A+ respectively. In recognition of the high quality of our approach in this area, we were also re-accredited with the Gold Standard by the Pensions Administration Standards Association.

We continue to hedge market and longevity risk exposures and benefit from robust collateral arrangements which mitigate counterparty risk. All of our longevity reinsurance agreements are unfunded, i.e. we retain the assets and pay a series of reinsurance premiums based on expected longevity and receive a series of reinsurance claim amounts based on actual experience. This allows us to hedge longevity risk whilst minimising counterparty risk exposure.

From a stewardship perspective, we have continued to undertake and enhance our actions during 2023 to ensure that our approach to stewardship is fully aligned with our investment strategy, business model and culture. Where possible we measure and monitor the effectiveness of these measures, with Key Risk Indicators (KRI's) created to define target operating ranges, and data included in the relevant committees for discussion.

- Effective sustainability and climate risk management is essential to meet our objectives for 'Policyholder Security' and 'Balance sheet stability'. Our investment portfolio's Carbon Intensity (CI) remains a Key Performance Indicator, and the principal method by which we measure, and evidence progress with portfolio decarbonisation.
    - On a weekly basis, we report the performance of our portfolio against our CI targets to senior stakeholders and discuss drivers for change including investment activity and new data availability.

- On a bi-monthly basis, we report progress against a wide range of sustainability metrics to the Executive Risk Committee (ERC) including issuers with a material climate score, UN Global Compact status and new sustainability opportunity financing. We also verify compliance with our portfolio exclusions. Information on these data points is outlined in more detail in Principle VI. In 2023, a full review and refresh of the ERC management information (MI) pack was completed to ensure it provided a comprehensive and decision-useful update for senior leadership and Board audience. This included enhancement to the sustainability data provided within the pack to support understanding and trend analysis.
- Following direction from our Executive team in 2023 we updated our CI reporting to attribute changes in Carbon Intensity not only to changes in borrower emissions but also their revenues and other portfolio composition effects that occur due to trading or to changes in market levels for FX and interest rates. These findings are available in our 2023 Climate Report.
- As outlined in Principle VII below, Rothesay continues to require high emitting entities in our portfolio to demonstrate that their decarbonisation plans are sufficiently ambitious and meet a minimum carbon intensity reduction level.
- Our Board discussed and approved topics for inclusion in our suite of sustainability disclosures, including new topic areas and position statements, to ensure the most relevant information was appropriately captured.
- **Effectiveness**: Intense focus at executive level and regular internal reporting has ensured that sustainability considerations, especially climate impacts, are embedded within all trading decisions. The importance of sustainability considerations within our strategy has been acknowledged in the replacement of the ESG Working Group, with an Executive-level Sustainability Committee (SC). Trading decisions that result in adjustments to portfolio composition take into account the effect on our climate metrics as well as more traditional considerations of returns on capital and improvements in credit quality.

In line with our 'Value-driven' investment principle we continue to monitor developments in quantitative methods to assess sustainability risk.

- We have always considered sustainability and responsible stewardship across our investment decisions. The outcomes are evidenced by the material deployment into sustainability-linked investments as shown below.
- As discussed above, our sustainability risk assessment framework ensures we capture and had consider all material elements of sustainability risk, in part driven by customer feedback. Updates to this framework are included in our Responsible Investment & Stewardship policy, which we update regularly and make publicly available.
- In 2023, this included formally recognising the critical role that nature plays to a stable economy and the need to consider more formally the impacts and dependencies on nature across our investment portfolio, supply chain and own operations.
- In addition to our CI targets, we once again published Financed Emissions and Implied Temperature Rise metrics in our 2023 Climate Report. This report also includes a case study on our portfolio's Scope 3 emissions and the challenges faced in gathering this data. More information on how we have ensured metrics are presented in a balanced manner can be found in Principle V.

    - **Effectiveness**: We judge our progress here to be effective, but as client needs evolve and sustainability measurement generally becomes more sophisticated, Rothesay will ensure to implement improvements. We continue to monitor client needs, seek better quality, more forward-looking data, and will enhance our strategy and disclosure accordingly, starting with the publication of a transition plan. We are committed to aligning with future best practice frameworks, such as the International Sustainability Standards Board (ISSB) that now replaces Taskforce for Climate-related Financial Disclosures (TCFD) and investigating new frameworks, such as that established by the Taskforce for Nature-related Financial Disclosures (TNFD), in a full and timely manner.

- In line with our 'Collaborative & Diverse' cultural value, we have worked hard to ensure that all colleagues feel accepted and have equal opportunities to thrive at Rothesay.
    - Actions taken to support this include the introduction of a diversity and inclusion (D&I) Executive Working Group. More information on this process and other Diversity and Inclusivity projects that ran throughout the year can be found in Principle II.
    - **Effectiveness**: Over 2023 we have made good progress, with the working group taking an action led approach to addressing challenges, including an increased focus on more inclusive recruitment of talent. We recognise that increasing diversity and inclusivity is a long-term challenge and will continue to consider practical initiatives and employee engagement to support further positive developments.

We continue to deliver consistently good customer outcomes:

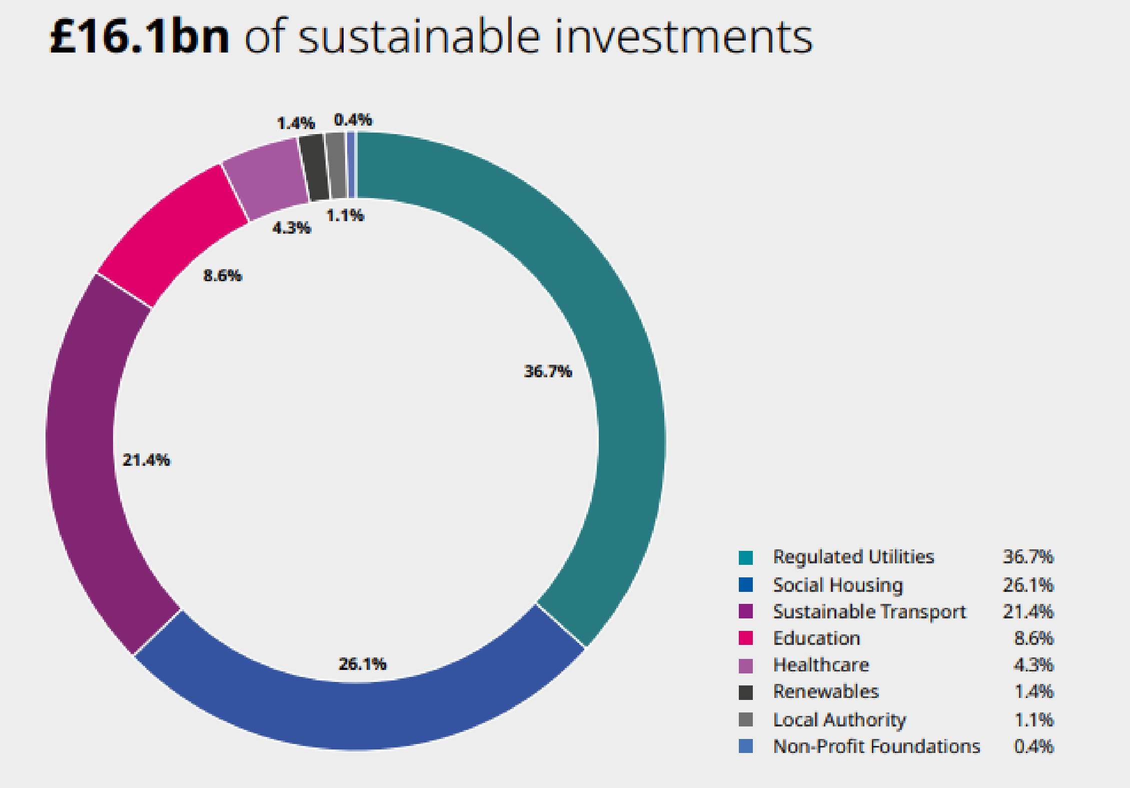
- In 2023, Rothesay successfully implemented the FCA's Consumer Duty, which was effective for open products and services on 31 July 2023. Our preparedness for the new regime was confirmed by independent expert assessment, and reported to our Board along with a comprehensive report setting out how we monitor customer outcomes, and the required steps to ensure the Duty is fully embedded across our business.
- We developed a new set of style guidelines for our third-party administrators (TPAs) to ensure a consistent 'look and feel' across all our communications. This will support policyholders to understand our products and services and know how to get the right support when they need it.
- We aligned policyholder outcomes oversight and monitoring to each of the four FCA Consumer Duty outcomes.
- Our complaint levels continue to be low with 1.94 complaints received per 1,000 policyholders (2022: 1.37 complaints per 1,000).
- We provided face-to-face training to all our TPAs to encourage and empower them to identify and support policyholders with vulnerable characteristics.
- **Effectiveness:** We are proud of our performance and continue to develop our approach to go 'above and beyond' in delivering good customer outcomes and reducing the risk of customer harm. In 2024, we will continue to focus on embedding the Consumer Duty to ensure good outcomes for all policyholders.

Case Study: Investing in Sustainable Opportunities Performance

As outlined in our 2022 Stewardship Report, a key tenet of our strategy is investing our capital responsibly; it is critical that we invest in assets which match our liability cash flows, which provide appropriate risk-adjusted returns, and which support our pathway to a more sustainable future. In particular, this includes funding the provision of critical infrastructure especially in the UK. Given the long-term nature of our business, we consider the impact of our decisions well into the future to ensure we deliver positive outcomes for all our stakeholders, including our policyholders, our investors, and our society.

We continue to support this, with Rothesay having invested £16.1bn in opportunities deemed to be sustainable investments. No change has been made to our definition of sustainable investments which we consider to be investments in companies and sectors, which are in alignment with one or more United Nations Sustainable Development Goals, and where the proceeds can be explicitly earmarked for sustainable or social purposes.

Investments currently meeting this definition include:
Social Housing; Local Authorities; Education; Sustainable transport; Healthcare; Regulated Utilities; Non-Profit Foundations; Renewables



We continue to value the positive contributions our financing can provide and seek to continuously enhance our involvement and mature our approach in this area.

Assessing our effectiveness through direct feedback from clients

As we have previously noted, our clients include our individual policyholders, and the trustee boards that represent their interests during a pension risk transfer transaction.

Rothesay prides itself on the quality of service that it provides and has developed robust governance to support this objective. This includes monitoring customer satisfaction as part of our Alternative Performance Measures (APMs). Policyholder feedback surveys are sent to all policyholders following interaction with them (apart from complaints or bereavements). In 2023, 94% of customers rated our service as either good or excellent.

We have service level agreements in place with our Third-Party Administrators (TPAs) to ensure calls are answered and cases completed within appropriate timeframes. We also monitor system resilience, timely payments, and data integrity daily, and respond immediately to any material issues.

The Executive Customer Conduct Committee receives monthly reports that monitor TPA performance against all the above measures, with the data distributed for discussion at the Board Customer Conduct Committee.

Case Study - Supporting Vulnerable Customers

We have continued to develop our model in this area and have changed the way we gather information about our policyholders in order to ensure we enhance our identification of customers with vulnerable characteristics and provide the best possible service. This information has indicated that accessibility is the main area of vulnerability, and our call handlers focus on listening to policyholders' needs and offering them a service enhancement that is right for them such as Braille, audio files, large font, telephone contact only, passwords on account or simply speaking slowly and clearly. An example of how we have adapted our service is that one of our policyholders recently contacted us and asked for communications to be issued on a specific type of paper. They were dyslexic and this would help them read and understand our communications. We were able to accommodate this and include this now as part of our service enhancements.

In September 2023, we revisited the Consumer Duty training and provided further face-to-face training to all our TPAs to encourage and empower them to identify and support customers with vulnerable characteristics. We understand that policyholders will need help in a wide range of scenarios and have created a culture within our TPAs where they are encouraged to speak up and share ideas with us so we can continually evolve our service offering.

Principle VI provides detail on how we consider feedback from trustee boards and align the investment stewardship accordingly.

Overall, we are satisfied with the effectiveness of our ability to serve the best interest of our clients and beneficiaries, through the customer service we provide and our diligent approach to stewardship across our investment portfolio. However, as evidenced by impacts driven by market volatility in 2022, it is critical we remain alert to changes in our client needs and continuously adapt and improve risk management processes to best serve clients and deliver consistently good policyholder outcomes.

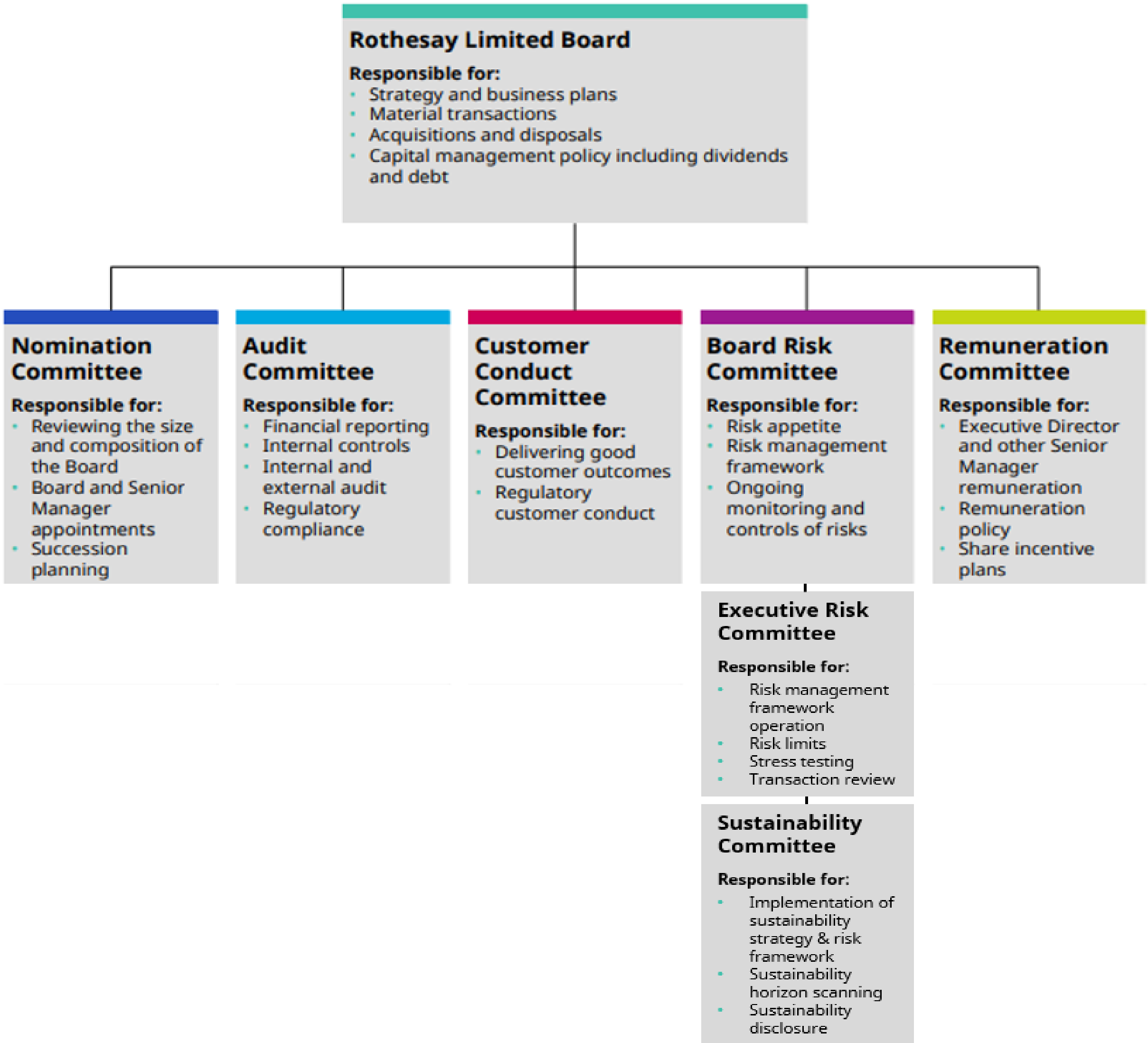
II. Governance, resources and incentives

Principle 2: *Signatories governance, resources and incentives support stewardship.*

Governance structure to enable oversight and accountability for effective stewardship

Effective stewardship of our assets begins with a strong governance framework over every investment decision. At Rothesay, we structure our governance framework so that our strategy, purpose and values are clearly directed by our Board and are understood and acted on throughout the business. That approach, alongside robust management arrangements, systems and controls supports us to effectively manage our risk profile and secure the future of every one of our policyholders.

The Board Committee structure is shown below:



The Board and its Committees are comprised of a combination of Executives, Directors appointed by the shareholders of Rothesay Limited and Independent Non-Executive Directors (INEDs) and meet on a regular basis.

Rothesay applies its risk management, internal control systems and reporting procedures at a Group level (seeking to ensure that they are applied consistently across all entities in the Group) and at an employee level.

Rothesay's governance structure means that decisions can be made quickly and efficiently whilst ensuring that there is robust oversight. The Board is supported by the Audit Committee, the Board Risk Committee (BRC), the Customer Conduct Committee, the Remuneration Committee and the Nomination Committee. Terms of reference for these Committees can be found at www.rothesay.com. The Customer Conduct Committee was established as a Board Committee in 2022 to enhance our strong governance model, maintaining focus on providing excellent customer service as an essential element of our business model, brand, and reputation.

Case Study - Board Effectiveness Review

An internally facilitated review of Board and Board Committee effectiveness was undertaken during 2023 by the Company Secretariat (following an external review of Board effectiveness undertaken by Manchester Square Partners in 2022). This consisted of completion of a questionnaire by Directors and a number of other senior executives and collation and presentation of the results at a Board meeting. In addition, the Chairman meets annually with all Directors individually to discuss their feedback on Board performance and their individual contribution.

The review concluded that the Board and its Committees are highly effective and led to a small number of recommendations which will be addressed over 2024.

Fit and proper requirements

The FCA Handbook and PRA Rulebook requires firms to ensure that anyone performing a Senior Management Function or Certification Function is fit and proper for their role. This requirement also applies to Non-Executive Directors who are not Senior Managers.

Rothesay's Fit and Proper Policy was first approved by the Board in November 2015. It has since been updated regularly, and at least annually, to ensure ongoing compliance with the fitness and propriety requirements of Solvency II and the Senior Managers & Certification Regime (SM&CR). The Fit and Proper Policy and its underlying operational framework identify who is in scope, how fitness and propriety is assessed for both new starters and on an ongoing basis and the governance arrangements in relation to individuals being approved as being fit and proper. This includes Rothesay's requirements for skills, knowledge, and expertise for the people who effectively run the business.

Rothesay's assessments of individuals' fitness and propriety reflect the SM&CR fitness and propriety requirements, namely:

- Financial soundness;
- Honesty, integrity and reputation; and
- Competence and capability.

In addition, the Nomination Committee ensures that the Board collectively possess appropriate qualifications, experience and knowledge about at least:

- Insurance and financial markets;
- Business strategy and general management;
- Governance;
- Risk management;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

Rothesay employs the following procedures to assess fitness and propriety:

- Performance against the applicable PRA Conduct Standards and FCA Conduct Rules;
- Performance against internal policies and procedures;
- Disclosure and Barring Service checks;
- Credit checks;
- Social media checks;
- Review of regulatory references;
- Review of training completion;
- Directorship search;
- Annual performance reviews and assessments; and
- Self-attestation annually.

In addition, the Chairman undertakes individual review sessions with each of the Directors.

Appropriate Resourcing of Sustainability and Stewardship activities

Board Oversight

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.

The topic of climate change is 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 meeting, with the more strategic discussions occurring as appropriate, and at least twice a year.

Case Study - Items taken to Board in 2023

The table below summarises some of the stewardship related items that were taken to the Board for discussion or approval in 2023:

Key discussion themes	Areas covered/Approvals
Our Disclosures	• 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	• Updates to a number of policies including: – **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	• 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	• 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

At the heart of Rothesay's asset risk management are our Investment Committee, BRC and the Executive Risk Committee (ERC), which all consider and, if satisfied, approve new assets. Transactions presented in these forums are required to address sustainability issues (including climate change) and these considerations are as important as other traditional credit matters. The executive team also discuss strategic elements of sustainability risk management, including topics such as portfolio targets, exclusions, portfolio strategy, evolving regulations and disclosure requirements, and developments in client and stakeholder expectations.

In addition, bi-monthly Risk MI Pack is shared with ERC and BRC members. This pack includes:

- Carbon Intensity performance of our portfolio vs targets / Key Risk Indicators.
- Percentage of market value allocated to higher climate risk investments as outlined by our climate framework that identifies entities most exposed to climate risks.
- Trend of duration & liquidity in higher climate risk investments.
- Exposure within our portfolio to investments linked to fossil fuels & renewables or climate opportunities, in line with TCFD recommendations.

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

Peter Shepherd

Chief Risk Officer

Peter Shepherd is Rothesay's Chief Risk officer. He joined Rothesay in 2016 and is responsible for the risk function. Prior to joining Rothesay, Peter held a number of senior roles at Lloyds Banking Group including leading the structured credit investments portfolio and establishing and leading the business responsible for the management and disposition of specialist non-core assets within the Group. He was also a director, and member of the investment and funding committee, of the Group's defined benefit pensions schemes.

Sustainability Committee

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.

David Land

Head of Investment Strategy

Having worked at Goldman Sachs since 1993, David was a member of the team that established Rothesay in 2006 and was its Chief Investment Officer until 2020. He represents Rothesay at the PRA/FCA-convened Climate Financial Risk Forum, on the Association of British Insurers' Climate Change Working Group and leads the sovereign debt working group for the UN-Convened Net-Zero Asset Owner Alliance.

The SC 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 SC are regularly reported to the Board Risk Committee, Senior Executive Committee and Board.

Membership of the SC 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 Sustainability & Liquid Credit Risk

Recommendations from the SC are subsequently presented for approval to the executive committees and ultimately the Board Risk Committee (BRC) or the full Board.

The SC has developed a few sub-groups, comprising members of the Sustainability team, and other business experts. The purpose of these sub-groups is to help co-ordinate and drive the key strategic climate-related projects for Rothesay, involving the relevant business areas, and ensuring adequate and appropriate resource. This includes projects relating to scenario analysis, data processing and automation, and net zero transition planning, and involves experts from teams including asset origination, risk, finance, legal and IT.

Sustainability Team

We have a dedicated Sustainability team managed by our Head of Sustainability 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 sustainability. Our analysts advise on sustainability strategy and frameworks, manage sustainability disclosures and monitor relevant channels for evolving requirements and best practice. They also provide input to trade decisions and investment committee memoranda, advising on any material sustainability considerations. This ensures stewardship principles are widely considered and consistently applied for new investments. The three analysts within this team have multiple years of sustainability experience, on top of wider experience in credit, risk management and consultancy, as well as relevant professional qualifications such as the CFA Institute Certificate in ESG Investing.

Holly Cook

Head of Sustainability and Liquid Credit Risk

Holly Cook is Rothesay's Head of Sustainability and Liquid Credit Risk. Holly has worked in the financial sector for over 30 years, with experience across portfolio management and risk. She joined Rothesay in 2017 as the Head of Liquid Credit Risk, and became increasingly involved with sustainability, embedding climate change into our Risk Management Framework. She is a member of several working groups for the UN-Convened Net-Zero Asset Owner Alliance. Prior to joining Rothesay, Holly was the co-head of the Structured Credit Investments team at Lloyds Banking Group.

Diversity and Inclusion Executive Working Group

In July 2023, we enhanced our diversity and inclusion (D&I) Executive Working Group. This working group takes senior responsibility for forming and delivering our D&I strategy as we go forward. In addition, Board Non-Executive Director Angela Darlington is now Rothesay’s first independent Board sponsor for D&I. Our D&I initiative encourages employees to share their views on D&I within Rothesay and to provide more detailed personal information so that we can better track our progress in promoting D&I within our business.

Incentivising integration of stewardship and investment decision making

At Rothesay, we believe that successful stewardship requires the support of all our employees to ensure that we can protect the financial security of our policyholders. We strive to provide all individuals with the encouragement and training required to consider the economy, environment and wider society when making business decisions.

In 2021, incentivising the implementation of effective stewardship, we introduced an assessment of each individual's alignment with, and contribution to, Rothesay's sustainability and stewardship objectives, which forms part of our employee's annual performance review. The review evaluation recognises that performance against these objectives is more material in certain areas, for example for those responsible for elements of managing sustainability risk within our investment portfolio.

Training

As outlined above, one of the responsibilities of the SC is to support the sustainability capabilities of Rothesay and its employees. The SC draws its membership from all business units, with members learning from one another then spreading their newfound expertise within their own teams.

The inclusion of sustainability as a regular item within Board meetings supports updates and consideration of relevant developments and educates the Board on material topics. ERC and the Executive also receive and discuss these Board updates to facilitate the dissemination of information throughout the business.

In addition, there is a wide variety of training available to all employees including:

- Mandatory annual sustainability training covering Rothesay's sustainability strategy including our responsible investment approach, expectations in relation to anti-greenwashing, our climate commitments, metrics and our progress against targets.
- Climate training for all new joiners/graduates.
- Team specific sustainability training (ad hoc) provided by the Sustainability team.
- Sustainability-linked training including under our professional qualification offering (e.g. CFA Institute Certificate in ESG Investing).
- Various voluntary lunch & learn sessions on climate throughout the year.
- External engagement through various industry initiatives on climate developments.

We continue to assess our governance processes to ensure they remain appropriate and look for opportunities to strengthen our approach where necessary. For example, we consider future resourcing requirements and training opportunities. In our 2022 Stewardship Report, we stated our intention to review our sustainability Governance framework in 2023 to make sure that it is still suitable for our stewardship requirements. As part of this review, 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. Another outcome was that the ESG Working Group was replaced by the SC, now reporting into the Executive Committee, to acknowledge greater representation from Executive Management.

Promoting Diversity and Inclusion

Since July, we have made good progress including launching our 2024 D&I calendar of events, hosting forums and training, and most recently improving and expanding our medical insurance benefit to support neurodiversity diagnoses and gender dysmorphia. In the 2023 employee engagement survey, 85% of our employees agreed or strongly agreed with the statement "My co-workers respect my thoughts and feelings" (2022: 82%), 90% agreed with the statement "My manager treats people fairly" (2022: 86%) and 79% agreed with the statement "We have a work environment that is accepting of diverse backgrounds and ways of thinking" (2022: 79%).

We encourage all employees to provide us with their D&I data on a confidential basis so that we can track progress in relation to diversity and inclusivity over time. Such data includes gender, race, sexual orientation, religion, nationality, disability, whether the person is a carer and socio-economic background.

We continue to look at ways of identifying and supporting a more diverse range of talent for the long term. We believe in taking practical steps to drive this outcome, and to regularly communicate our commitment to supporting all our colleagues. We:

1. have increased the number of women in our business at Executive Committee level through recruitment and this has brought more diversity to the top-level decision-making process, as well as wider industry experience;
2. continue to focus on more inclusive recruitment and have improved our interview framework with the aim of hiring more diverse talent;
3. targeted female-focused talent events as part of our 2023/24 Graduate campus strategy and ensured that all candidates are interviewed by a diverse interview panel; and
4. delivered training to current employees who interview candidates to ensure that all candidates' experience of Rothesay is consistent and high quality.

During 2023, we again participated in the #10,000BlackInterns programme, which seeks to offer internships to Black students across the UK to help kick start their career in investment management.

Effectiveness of our governance structures and processes in supporting stewardship

Two key features of the governance structure and processes have led to effective support for stewardship.

First, the SC draws its membership not just from specialists but from all parts of the firm. This ensures that the projects undertaken by the group have wide support and that knowledge gained is readily transmitted back to the business units of the members.

Second, the SC is led by members of the Senior Executive Committee which ensures that stewardship concerns are voiced at the highest level rather than remaining in a separate silo. In addition, the Chief Risk Officer, as the designated Senior Manager, ensures that all investment decisions made by the Executive Risk Committee are informed by a thorough analysis of the relevant sustainability concerns.

This report demonstrates material progress and high degrees of rigour in our stewardship practices. The case studies below demonstrate the value gained from the breadth of expertise available and harnessed through the SC membership and framework.

Potential improvements to these structures and processes

We review the appropriateness of our governance framework on a regular basis to ensure it remains effective as regulations and stakeholder expectations change. Key challenges include greater focus (and ultimately regulation) on stewardship and sustainability practices, enhanced data accuracy and resilience, better forward-looking data to support our portfolio net zero transition modelling, new nature based environmental measures and the ongoing drive to better model the potential impacts of various climate scenarios.

The membership will be adjusted to ensure that it includes representatives from the most appropriate business areas, with the appropriate seniority to consider, escalate and effect change.

We also consider which committees review the recommendations from SC, and the process for escalation. While the formal executive committee reporting line is currently to the ERC, SC recommendations are often reviewed at wider committees, such as the Finance committee for data governance decisions, and the Senior Executive Committee for strategic decisions.

Case Study – Sustainability Committee (SC)

In 2023, we reviewed the governance process for sustainability-related issues at Rothesay. This review led to the introduction of the SC as the body responsible for the day-to-day implementation of sustainability-related risk management. In comparison to the superseded ESG Working Group (EWG), the SC draws in increased senior leadership from across the company, ensuring that issues can be discussed at an appropriate management level.

III. Conflicts of interest

***Principle 3:** Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.*

Rothesay's Conflicts of Interest Policy and its Application to Stewardship

Rothesay has a mature Conflicts of Interest Policy that provides the business with guidance for identifying, avoiding, disclosing and managing circumstances that may give rise to conflicts of interest. This supports our ability to consistently put the best interests of our clients first.

Our policy defines a conflict of interest as:

"A set of circumstances or situation where the Group and/or its employees are subject to multiple competing influences that could adversely impact decision-making and outcomes."

Potential conflicts arise in two ways:

- **Business conflicts:** the competition of legitimate influences on the Group's business, for example (i) between Rothesay's primary stakeholders; (ii) in the Group's third-party relationships; (iii) with a person linked by control; and (iv) with and between its clients or customers.
- **Personal conflicts:** the competition between interests of an employee, the Group or its clients and potentially harmful influences rooted in personal interests or relationships. Examples include personal decisions driven by the prospect of financial gain or increased social status.

Rothesay's business encompasses a range of activities, including liability transactions in respect of bulk purchase annuities, funding arrangements with mortgage lenders and originators, real estate investments and other broader fixed income investment activities. These activities give rise to some potentially competing interests and therefore our activities must carefully consider the conflicts of interest they may present.

Identification and Management of Conflicts of Interest

As an example of controls in place to manage conflicts, the following internal processes and rules exist to manage conflicts of interest between Rothesay and its employees' trading activities when Rothesay is simultaneously in receipt of confidential information held because of Rothesay's liabilities business:

- The Compliance Function maintains a list of entities (the restricted list) in relation to which we judge the firm to be in possession of material non-public information (MNPI). Generally, where we make this judgement, it is because of our liability dealings with corporate pension schemes or investment activities including market soundings on new issues.
- Trading in securities of issuers who are on our restricted list is prohibited.
- Approval is required prior to trading securities of issuers on our conflicts list for whom we hold confidential but not material non-public information. All employee personal account dealing in equity and corporate debt instruments must be submitted for pre-trade approval.

From time-to-time Rothesay's asset risk management function may wish to engage with issuers who are included in either the conflicts or restricted trading lists in order, for example, to obtain more detailed information about their carbon emissions or a potentially controversial activity that they are required to monitor. A conflict could arise if the Bulk Purchase Annuity Business Development team believed such engagement would limit their ability to effectively negotiate a liability side transaction with the issuer's pension scheme. We mitigate this conflict by having a clear separation between the Risk teams (who are responsible for our issuer engagement activities and report to the Chief Risk Officer (CRO)), and the Business Development Team (who report to the Chief Executive Officer (CEO)).

Rothesay takes the following approach for all conflicts of interest:

1. Identification of potential/perceived conflicts of interest.
2. Avoid or manage the conflict of interest.
3. Disclose conflict of interest.
4. Review conflicts of interest.
5. Annual conflicts of interest training and attestation.
6. Specific Conflicts of Interest Policy subject to annual review.

The annual training emphasises the fact that one of the less obvious conflicts that employees may face is that between the natural inclination to steer clear of difficult situations and the requirement to report breaches whenever they are noticed. We strive to create an unthreatening atmosphere in which the reporting of errors made, or obstacles encountered is not stigmatised.

Rothesay's Compliance Functions prepares conflicts of interest-related reports for Senior Management and its Business Controls Committee. In addition to metrics such as conflicts self-reported by employees, reporting may include specific examples of conflicts that have arisen. The Executive Risk Committee, Business Controls Committee and Audit Committee are responsible for the oversight and mitigation of conflicts of interest.

Rothesay's business groups, when considering new transactions with related parties (e.g. shareholders), will seek approval of Rothesay's Executive Risk Committee where conflicts of interest are analysed in detail and decisions are taken to implement specific actions to manage or avoid transactional conflicts. Examples of actions may include making sure pricing of a financial instrument is at arms-length or that approval is sought from Rothesay's Board.

From time to time, Rothesay may receive confidential information in relation to its assets. That information could, in certain circumstances, be considered Inside Information. Receiving Inside Information can, where Rothesay holds related public bonds positions, conflict with the firm's risk management activities in public markets. Rothesay has established procedures and organisational arrangements to either limit the dissemination of Inside Information or restrict trading as necessary. These arrangements have been put in place to avoid impairing Rothesay's ability to carry out ordinary course risk management activities in public markets.

Case Study – Addressing potential Conflicts of Interest

We encourage and require employees to raise potential conflicts of interest so that they can be properly assessed and considered, including seeking the approval from relevant senior management who may be closer to the issue. For the most part, requests by employees to conduct personal account trades, in listed securities, are approved but occasionally they will be rejected. A small number were rejected in 2023 either because Rothesay was in discussions with the issuer about other business activities or because the employee's senior manager considered the employee was too closely involved in Rothesay's own activities in relation to that issuer.

Potential conflicts where employees disclose outside business activities, private investment activities or other personal relationships are also usually approved and/or noted after appropriate consideration. However, in 2023 a small number of proposals were declined because it was considered that the proposed relationship between Rothesay, the employee and/or a third party would have created a potential conflict of interest it was better to avoid. For example, a private investment request by an employee to invest in a company which was also used as a vendor by Rothesay was declined.

IV. Promoting well-functioning markets

Principle 4: *Signatories identify and respond to market wide and systemic risks to promote a well - functioning financial system.*

Rothesay's risk management framework (RMF)

Rothesay has an embedded risk management framework (RMF) that adheres to the 'three lines of defence model' and ensures that every employee knows how they contribute to the effective identification, management, mitigation and monitoring of all types of risks including market-wide and systemic risks.

First line: Day-to-day risk management is delegated from the Board to the CEO and, through a system of delegated authorities, to business managers. Rothesay also makes the distinction between:

- the risk-taking functions, including investment and new business origination; and
- the control functions, whose responsibility it is to ensure the integrity of Rothesay's operations and reporting. These include operations, finance and legal.

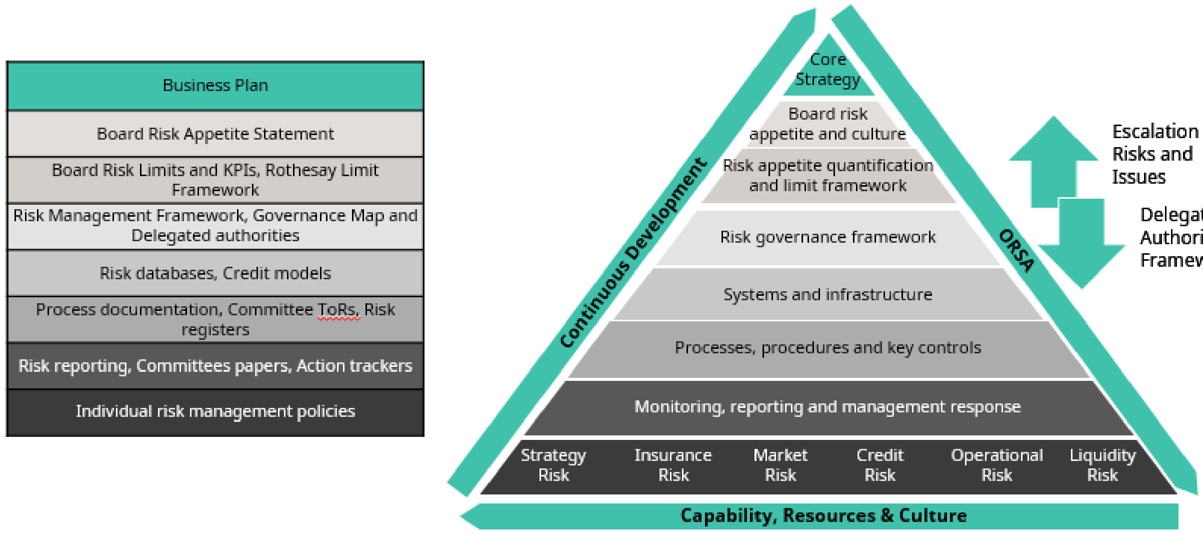
Second line: Design and maintenance of the risk management framework as well as risk oversight is provided by the CRO, his team and risk management committees. The Chief Compliance Officer and his team report to the General Counsel as part of the Legal and Compliance Function, as does Rothesay's Data Protection Officer.

The Executive Risk Committee is chaired by the CRO and consists of relevant senior managers working within a delegated risk management framework. This committee reviews all material new investment, hedging and liability transactions.

Third line: Internal Audit provides the Board and Executive committees with comprehensive, independent, assurance over governance, risk management and internal control.

The RMF informs and is directed by Rothesay's business strategy. Risk management considerations are integral to setting business strategy, as we seek to optimise our risk-adjusted returns and create shareholder value whilst also meeting the expectations of our clients and other stakeholders. The RMF ensures both clear ownership and strong oversight of all of Rothesay's risks, both quantifiable and non-quantifiable.

Despite the successful operation of our risk management framework in 2023, we are constantly reviewing and improving the entire framework to ensure that it continues to provide the insights to ensure effective risk-based decision making at all levels of the organisation.



Identification and Response to Market-wide Risks

Rothesay's capital strength, embedded value, liquidity, and profitability are all directly affected by changes in interest rates, currency rates and inflation often in a complex, interacting and non-linear fashion. We regard it as vital to always know our sensitivity to these factors and the firm's integrated pricing, capital and risk management system, inherited from Goldman Sachs and further developed in house, is our key competitive advantage in this regard. All assets and liabilities are captured within the system along with all the relevant real time market data.

Each day comprehensive risk reports are computed allowing the traders immediately to execute trades of the correct size to maintain the sensitivity of our primary metrics in line with the course set by senior management. These trades are largely done in the market for interest rate and cross-currency swaps all of which are undertaken with Collateral Support Agreements which, in turn, require us to manage our liquidity as carefully as our capital. To this end, where we are required to provide collateral to a counterparty, we have sought to agree arrangements which permit us to post as wide a selection of our assets as possible rather than being restricted to cash and Gilts.

The other stakeholders with whom we work where our dealings have the potential to affect the quality of the way the financial system functions include market counterparties, reinsurance counterparties, pension scheme trustees, advisors and sponsors, and investors in Rothesay both current and potential for debt and equity.

Our Approach to Understanding and Managing Market-wide Risk

The Rothesay Asset-Liability Committee meets each morning to discuss the behaviour of the markets and to decide upon any adjustments to our risk positions that may be warranted. This results in our dealings with the market having an incremental rather than a dominating impact on the flows experienced by our counterparties. We execute market trades in a manner that is respectful of our counterparties and indicative of our desire to be a long-term participant with whom other institutions want to trade.

In our dealings with reinsurers, we work with them to maintain the integrity of the market by being fully transparent with respect to the actuarial data we hold and by providing mutual credit support to all treaties via carefully tailored collateral arrangements. These arrangements are designed to allow both parties the flexibility to use assets as collateral from an eligibility pool that is broad enough to minimise the risk of forced sales of illiquid assets which, in turn, could spark a wider sell-off.

During the negotiations that surround Rothesay's eventual acceptance of the liabilities of a new pension scheme, we aim to maintain our reputation for integrity, for living up to our promises and for providing total clarity as to the process and any potential pitfalls. Behaving in this way gives scheme advisers the confidence that we will do so in future and helps to keep the pension risk transfer market functioning smoothly.

As a private company with just two institutional shareholders, both of whom have seats on the Board, are supportive of Rothesay's long-term strategy and have full access to management information, we believe that we pose little risk to the functioning of the stock market in general. Our bonds are more widely held, however, and are public. We take pains to make it very clear, when issuing new debt, why it is we seek additional funding. Through our regular "non-deal road shows" and the transparency of our financial reporting in respect of what is a relatively uncomplicated single line of business we play our part in promoting a well-functioning market for corporate debt.

Identification and Response to Systemic Risks

The below outlines some examples of systemic risk impacts to markets and how Rothesay's stewardship approach has supported positive outcomes for the business and contributed to the well-functioning of markets.

A Return to Higher Interest Rates

By the end of 2022 the severe spike in interest rates had subsided but gradually over the course of the first half of 2023 interest rates returned almost to their peak while inflation plateaued at a high level. This time market participants were better prepared and no dramatic, self-reinforcing crashes occurred. Nevertheless, Rothesay's collateral posting requirements are determined by cumulative moves whether they happen gradually or all at once and so we remained highly vigilant with respect to our liquidity.

It is not possible to execute interest rate hedges for our business that immunise both our capital surplus and our enterprise value against erosion as interest rates rise. We do, however, maintain a keen awareness of the amount of capital usage that is required to support the new business acquisition that ultimately leads to growth of the company, and it is with this in mind that we calibrate the size of our liquid market hedges.

In a situation where several market variables (foreign exchange rates, inflation, interest rates, credit spreads) are moving simultaneously and with momentum, it is vital to be able to account for the interactions among them because, for example, as credit spreads rise so the interest rate risk of the bond portfolio shrinks requiring a quick adjustment to the rates hedge before moves in interest rates could cause a loss. Rothesay benefits from a fully integrated asset and liability booking and risk management system that is optimised to provide daily reports detailing all the relevant risks including the second order effects described here. We were therefore able to navigate dynamic markets with full visibility, making small hedge adjustments, when necessary, without disturbing the market.

Conflict in the Middle East

Geopolitical risks have remained elevated in 2023, with the consequential threat of a widening and escalating conflict continuing to hang over the Middle East. Our first concern was for our people with connections in the region given the extraordinary humanitarian impact. We were also alert to the risks this posed to our investment portfolio. The market as a whole remained relatively stable, allowing us the liquidity to rebalance effectively in the few areas where we deemed action to be necessary.

Bank of England Monetary Policy Committee Survey

As an example of working with other stakeholders to promote a well-functioning financial market, we respond to the Bank of England's Monetary Policy Committee Survey (MPC). Prior to each meeting of the MPC the Bank of England asks us to respond to a survey in which we provide information about our views on the likely path of short- and long-term interest rates, inflation, the strength of sterling against the dollar and euro as well as our expectations for bank activity in respect of quantitative easing or tightening. In this way we contribute to the Bank's ability to oversee an orderly market.

Climate change

The most significant influence that Rothesay has in helping to combat the effects of climate change is through directing the investment allocations in our asset portfolio. Managing climate risk does not necessarily mean divesting from high emitters. In fact, we will invest in higher-emitting issuers in whom we have confidence that their emissions will decline in line with appropriate targets in the short and medium term. We have, however, reduced exposure to issuers where we have less confidence in the responsible stewardship of these risks. We also acknowledge the importance of a 'Just Transition'[2] in the way in which we manage sustainability risks, making sure to consider the social consequences of withdrawing funding from one sector in favour of another. For example, giving greater support to issuers with clear exit strategies for coal generation, including issuers that have considered and clearly communicated plans well in advance to their local communities whose employment opportunities may be affected by the closure.

Our proactive management of these risks has continued this year resulting in a cumulative reduction in the Carbon Intensity of our portfolio of 39% since 2020. We are at pains to point out, however, that this took place in an inflationary environment which flatters the metric because it tends to boost revenues which appear in the denominator. In 2023 Rothesay introduced a new medium-term target to see this cumulative reduction reach 50% by 2030.

Rothesay continues to develop its approach to climate change stress testing, which forms a key component of our Risk Management Function. We use climate scenarios to further explore, understand and model how physical climate change and the energy transition to a low carbon economy could affect the future value of our asset portfolio. Conducting scenario analysis allows us to validate and challenge the assessments of climate change risk that we conduct as part of our established risk management processes.

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[2] As outlined in Paris Agreement, a Just Transition is defined as 'the movement towards an environmentally sustainable economy which is well managed and contributes to the goals of decent work for all, social inclusion and the eradication of poverty.'

Involvement in Climate-linked Industry Initiatives

Many organisations and standards have been set up to help and encourage financial institutions to tackle the challenges presented by climate change. Rothesay has selected to join those that are very well established, make recommendations that are widely adopted and provide clear frameworks for their signatories to follow. We are an active member of the UN-Convened Net-Zero Asset Owner Alliance (NZAOA) participating in all tracks and leading the Sovereign Debt Working Group. We are also a signatory to the UN Principles for Responsible Investment (PRI) and a supporter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) having assessed and disclosed our climate related risks and opportunities in line with its recommendations as part of our annual reporting process since 2019. We continue to be active within the Association of British Insurers (ABI), helping to drive a co-ordinated strategy for the industry on climate change, biodiversity, and sustainability. We are a member of the PRA/FCA led Climate Risk Financial Forum and have helped to review several of their publications. We have followed up our participation in the Productive Finance Working Group by joining the Investment Delivery Forum convened by the ABI. The goal of this work is to capitalise on the benefits of the Solvency UK reforms to insurance regulation which have the potential to promote an increased deployment into UK infrastructure by annuity providers. This is partly because the new asset eligibility rules allow us to offer more flexible loan profiles that suit such projects, but more importantly because the overall reduction in capital requirement frees up capacity for an expansion of our business and the associated volume of investment.

Pension Risk Transfer

Rothesay's primary purpose is to take over responsibility for the assets and liabilities of defined benefit pension schemes from the trustees and corporations that sponsor them. The risk transfer that accompanies the largest of these transactions has the potential to be market moving if Rothesay's approach to management is very different to that of the original scheme.

With this in mind, we have worked with clients over the long term to recommend adjustments to their portfolio and their hedging strategy to allow a smoother transition at the point of final execution.

In December of 2023 we helped to shape the A4S Sustainability Principles Charter for the bulk annuity process which seeks to align expectations for insurers, trustees and advisors regarding transparency, reporting and engagement before during and after a pension risk transfer transaction.

UK Water Crisis – Nature Risk

Over the course of 2023 media and investor attention on water companies intensified with sustainability risk and credit risk compounding one another. While Rothesay is committed to supporting the UK's critical infrastructure, our overarching responsibility is the provision of security to our policyholders. Our allocation strategy not only considers the balance sheet strength of issuers, but also their impact on the ecosystem. We continue to engage with the regulators and government on the wider regulatory framework.

V. Review and assurance

Principle 5: *Signatories review their policies, assure their processes and assess the effectiveness of their activities.*

Policy review to enable effective stewardship

As set out in our Policy Framework, formal policies that sit within the purview of the Board or Board Committees are reviewed regularly (typically at least annually). This process is necessary to keep them aligned with our internal strategy, risk appetite, external standards and/or industry good practice, and regulatory requirements. All colleagues receive training on policies including during induction and as part of regular refreshers on content and where to access policies.

Our Policy Framework

Policies are recorded on a policy log, owned by our Company Secretariat (CoSec). This outlines when each policy was last approved and the deadline for the next review (usually annual). Before each round of Board and Board Committee meetings, this log is reviewed to identify which policies are due for review. Policy owners are notified of the need to review a policy to ensure it remains aligned with our stewardship approach.

Non-material amendments, such as minor language changes, may be approved by a delegate of the policy's approver (e.g. where the policy approver is a Board Committee, the relevant Board Committee Chair). Substantive amendments must be approved by the relevant policy approver (e.g. the Board or a Board Committee). Where the need for a new policy is identified, it will be added to the policy log.

During 2023, as part of the policy annual review cycle, we undertook a review of our Risk Management Framework (RMF), Board Risk Appetite Statement and Investment & Credit Policy to document enhancements in managing sustainability risk. We cite these examples because the outcome of this review was that our Board Risk Appetite and RMF documents were reviewed and updated, ensuring that language use was consistent, and all sustainability-linked processes were appropriately included and explained.

The Investment & Credit Policy was enhanced to add more specific references to sustainability-linked actions taking place including a specific section on climate screening and scoring. It was also updated to align language with the exclusions referenced in the Responsible Investment & Stewardship Policy.

We continue to consider and document our climate risk exposure and resilience within the Own Risk Solvency Assessment (ORSA), including progress from our climate screening and scenario analysis modelling.

Our Public Stewardship Policies

We have embedded our stewardship approach across our activities and therefore our policies. We have a number of public policies that are directly related to our stewardship approach and investment strategy. These are:

- Corporate Social Responsibility (CSR)
- Responsible Investment & Stewardship Policy (which includes our position statements)
- Modern Slavery Statements published on our website.

- The Group Financial Crime Policy, which sets out Rothesay's commitments to financial crime prevention including predicate offences such as modern slavery, human trafficking, bribery and corruption.

Case Study – Existing Policies Made Public in 2023

In 2023 we made our Know Your Client and Anti-Money Laundering Policy publicly available. This aligns with our commitment to preventing financial crime in all its forms and complying with both the spirit and the letter of all applicable financial crime legislation and regulations, including but not limited to UK money laundering and sanctions regulations and FCA regulatory requirements.

We also published our Anti-Bribery and Corruption Policy, covering compliance with all applicable anti-bribery and anti-corruption law including but not limited to the Bribery Act 2010.

Internal and external assurance in relation to stewardship activities

Rothesay's approach to its internal and external assurance processes is driven by the key objectives of the business and informed by industry best practice and expectations. As a result, we have a well-established process for assurance focused on allowing the rapid, informed decision-making that enables Rothesay to conduct its activities.

As outlined in Principle IV, Rothesay has a risk management framework (RMF) which is aligned to the 'three lines of defence model'. The mission of the Risk Function is to safeguard the interests of policyholders, balance risk with sustainable growth and shareholder value, and to foster and protect Rothesay's embedded risk culture over time through independence and challenge. The RMF ensures that accountabilities and responsibilities are clearly agreed and documented, and that there are appropriate checks and balances, including segregation of responsibilities.

Our existing governance structures provide mechanisms through which our sustainability strategy and stewardship practices and reporting are reviewed and evaluated by senior colleagues at Rothesay, including the CRO, Chief Financial Officer and Head of Investment Strategy. This process involves challenge from senior colleagues around completeness and accuracy of information, including requests for evidence of verification, and suggestions for improvements and/or clarifications to ensure content is clear for the audience. This helps ensure that our processes and reporting for stewardship and sustainability is fair, balanced and understandable.

Examples of Internal Assurance

Compliance: The compliance team undertakes regular reviews of our policies, commitments and practices, and works alongside the Legal and Sustainability teams to monitor evolving sustainability related regulations. We have formalised our internal assurance approach such that a member of the Compliance team also sits as a member of the SC.

Operational Risk: The Operational Risk function reviews our investment and risk management processes, including the robustness of internal controls around climate data.

Internal Audit: Provides the Board and Executive with comprehensive, independent, objective assurance over governance, risk management and internal control including in relation to our stewardship approach and sustainability data and disclosures. As the result of an internal audit of the adequacy and effectiveness of the controls in place governing the sustainability framework, we now produce a detailed methodology document for our climate data, which is reviewed and approved by the CRO and CFO. The Chief Auditor also sits as a member of the SC.

External Assurance of our reporting

There is a significant level of internal oversight across the Group to provide assurance over our sustainability investment policies and practices and the success with which they are being implemented. Nevertheless, we have also engaged external consulting and legal support from Clifford Chance to provide independent assessments of our approach to sustainability and stewardship reporting.

The importance of high-quality sustainability reporting to ourselves and our stakeholders, led to a decision to seek independent limited assurance over selected KPIs from Grant Thornton as to the accuracy of the data presented in our 2022 Climate Report (published October 2023).

Ensuring reporting is fair, balanced and understandable

One of the key principles to which we adhere whenever we publish an external document is the 'fair, balanced and understandable' concept. This is to ensure that any of our policyholders could read through and get a clear understanding of our stewardship strategy. This includes ensuring that our annual climate reporting aligns with the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations.

When presenting metrics as part of our annual sustainability reporting cycle, we not only look to publish the numbers, but also provide context as to what information can be drawn from them and if the metric has any limitations. This provides the necessary information to allow a balanced overview of our reporting, in particular our quantitative metrics, so these can be appropriately understood and analysed by the relevant audience. Where we have used estimates, such as when determining the Carbon Intensity of certain assets, we also look to provide a clear methodology of how we have come up with the numbers shown.

Tying into Principle VI, ensuring that our sustainability reporting is clear and understandable is one of the areas we look to check as part of meetings with consultants post publication.

Case Study – Ensuring our reports our understandable

Our approach to the disclosure of our stewardship strategy is to try to ensure that it will be easily digestible by our clients. As we understand that the plethora of terms and acronyms used in climate reporting can often be challenging to understand, in 2023 we introduced a glossary into our reporting, such that context was provided to phrases used throughout.

VI. Client and beneficiary needs

Principle 6: *Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.*

Rothesay's Client Base & Investment Time Horizon

Rothesay provides defined benefit payments both directly to individual policyholders and through bulk purchase annuities to the trustee boards of corporate pension schemes for onward delivery to their members. Together these classes of policyholder comprise over 930,000 people who are almost entirely UK based.

Our investment time horizon is focused on the long-term to align with client needs and cashflow requirements. To meet its liabilities, Rothesay invests in a portfolio of often long-dated, investment grade debt instruments with cashflows and maturities that match the required outflows. The policyholders are not exposed to the performance of the assets. Instead, these risks are borne, in the first instance, by Rothesay's shareholders and bondholders via the capital that they have contributed. Consequently, policyholders have very little direct influence over investment policy and pension fund trustees must instead decide, based upon our public disclosure, whether our approach suits their needs and is aligned with their principles.

The needs of individual clients

For most of the individual annuitants benefitting from Rothesay's services, their most important requirement is that their pension be paid in the correct amount at the correct time. As mentioned previously, pension administration of this kind is outsourced to specialist third-party providers. Nevertheless, because it matters so much to our ultimate clients, we shadow in our own systems the payments made by the third parties and make a careful reconciliation. In order to minimise the risk to the timeliness of payments, our process ensures that our payor bank accounts are fully funded well in advance of the date that pensioner payrolls are due to be made.

Part of our stewardship role on behalf of individuals is to ensure not only that their pensions are secure but also that their personal data is well protected. While it is unwise to disclose details of our activity on this front, we directly employ a team of over a dozen people dedicated to information security. We not only strive to ensure the security of our own processes but also engage with all our material suppliers to understand whether they could represent a security weakness. All employees are trained in the aspects of information security pertinent to their roles for example in making secure file transfers to external parties. Further information on Cybersecurity considerations relating to our service providers are outlined in Principle VIII.

Communication to clients about out stewardship activities and outcomes

While for individual policyholders our stewardship principles may be a matter of interest, pension trustee boards are required by their regulator to make their own climate related disclosures and therefore they rely on us to provide them with Rothesay's climate related disclosures from which they can glean the data they need.

Pension trustee boards typically seek information from us on our sustainability risk management approach as part of their process to select an insurance partner. At that stage we engage directly, sharing key elements of our framework, including stewardship, targets and exclusions, while aiming to understand their priorities. This exchange of information is used to guide enhancements to our sustainability framework over time.

On an ongoing basis, we report on our sustainability investment strategy and risk management processes annually in both our financial statements and dedicated sustainability reporting suite. We strive to produce accurate and granular information on our approach. This allows pension fund trustees to check that Rothesay's approach meets the pension scheme's sustainability objectives.

Rothesay has chosen to run a single matching fund that backs the liabilities of all our clients in a consistent manner. In our Responsible Investment & Stewardship policy, we outline our investment strategy and any exclusions. Our approach is guided by our client needs. However, as we only run a single fund, we cannot always accommodate conflicting sets of exclusions for different clients. Likewise, for consistency and simplicity of communication, we must limit the number of metrics we report and can only set a single target for any given metric.

We recommend that clients, prior to setting themselves targets related to greenhouse gas emissions, for example, check those of potential insurance providers to avoid a misalignment of ambition. Once this expectation hurdle has been met then our clients understand that we do not manage separate pools of assets tailored to individual client policies leaving us with the somewhat simpler task of managing our assets in alignment with the stewardship and investment policies that we have set for ourselves.

Determining and Understanding Client Needs

Rothesay acknowledges the importance of seeking and receiving client views in order to ensure our approach meets their needs. We seek client views in several ways, in particular utilising direct interaction at initiation of a pension risk transfer to understand stewardship priorities and expectations.

In addition to direct interaction at the point of pension risk transfer (and thereafter at the request of pension trustee board clients), Rothesay responds to surveys from external consultants on our approach to stewardship. Following the publication of our Climate and Sustainability reports we directly engaged with several consultants responsible for advising pension trustee boards. Through these actions, we have been able to understand trustee boards' priorities and concerns, allowing us to develop and enhance our investment and risk management approach.

In addition, we conduct our own brand awareness surveys, alternating annually between the trustee board members and external consultants. These provide an opportunity for some of our key stakeholders to provide feedback on their perception of Rothesay, including our approach to stewardship and management of sustainability related risks. Where we are involved in pitching to provide insurance for a company's pension scheme, we take the opportunity to understand the sustainability criteria applied by the trustees. As the pension risk transfer market is currently very active, we can quite effectively benchmark our approach with a cross section of trustees and consider evolving needs.

Case Study – Assessing the effectiveness of our activities to understand Client Needs and actions taken as a result

Each year we evaluate the effectiveness of our work, described above, to understand the needs of our clients by studying the rankings produced by several of the employee benefit consultants. This allows us to understand how our stewardship actions compare with our peers and identify areas for improvement. An example of an action taken a result of feedback we received in 2023 was the decision to include a data summary table at the back of our reports, to make the consumption of data easier.

Aligning and Managing our Investment Portfolio in line with Client Needs

The way in which we build our portfolio is also inherently designed to achieve our purpose of securing pension annuities for the future, providing certainty as well as genuine service excellence for all our policyholders. Due to the nature of the pension liabilities that we protect, we are a low-risk investor, with a long-term investment strategy focused on high quality investment grade debt and direct loans, in developed countries.

Through this approach, the average rating of Rothesay's investment portfolio is AA and the portfolio can be divided into three broad categories:

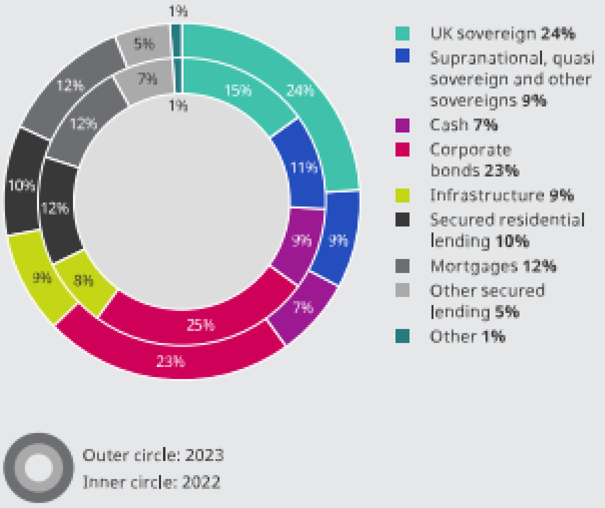
Supranational, Sovereign and Public Finance bonds – This part of the portfolio includes assets that are available to meet collateral calls and cash requirements or may be awaiting redeployment into more productive sectors. It also includes assets that back some of our very long-dated cash flows.

Corporate bonds and infrastructure lending – Given the scale of Rothesay's balance sheet, we invest in a diversified portfolio of corporate bonds, including regulated infrastructure such as water, energy, and transportation.

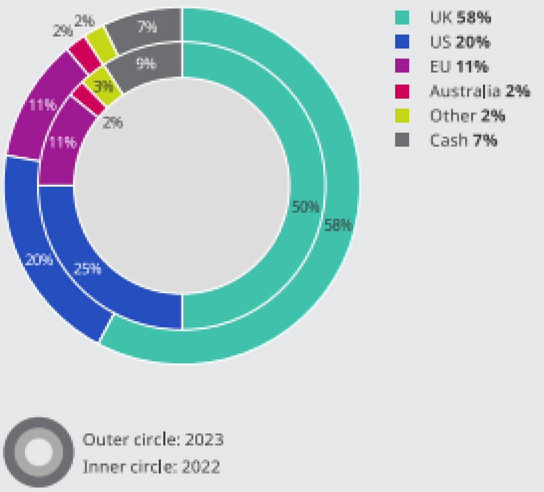
Bonds and Loans secured by Property – These assets are bonds and loans secured against property of various types. Included are different types of mortgages including equity release mortgages and loans secured against commercial real estate. They are attractive because investors are rewarded for illiquidity rather than credit risk. Structural features such as collateral, covenants and other security features mean that recoveries in the event of default are maximised, and credit risk minimised.

The following charts provide a breakdown of our investment portfolio as of 31 December 2023 and 31 December 2022 by sector and geography. Further detail on the management against stewardship priorities is provided in Princple VII.

Our investments (%)



International diversification (%)



VII. Stewardship, investment and ESG integration

***Principle 7:** Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.*

Identifying, prioritising and managing material sustainability risk

Our approach to the identification and management of risks during the investment process is guided by our Risk Management Framework where sustainability considerations are fully embedded. Rothesay directly manages its investments, allowing for a customised asset-by-asset approach to managing risk. The treatment of sustainability risk is based on a materiality approach, with heightened scrutiny triggered as sustainability risk increases. Our materiality assessment reflects regulations, stakeholder and client priorities, the scale of potential financial or reputational risk to us as well as the impact any investment has on the environment or society. This approach means we must prioritise the assessment of climate-related risks because it pertains to the depletion of a valuable carbon budget in a way that currently attracts minimal costs while its consequences will not be fully felt within a normal financial assessment horizon. In contrast, wider sustainability risks are often fully evident in the present, and so may be assessed and escalated where material, in line with our established credit risk management frameworks.

Rothesay's approach to stewardship, investment and sustainability integration is outlined by our Responsible Investment & Stewardship Policy, which requires the application of clear risk management processes at the point of purchase and throughout the life of all our investments. This includes, where applicable, any exclusions. To support this, Rothesay has a Sustainability team, including dedicated Sustainability analysts, to support the analysis of issues and facilitate the embedding of sustainability-related considerations across the business.

Prior to investing in an asset, Rothesay will conduct various levels of due diligence to determine the likelihood of it generating an acceptable return for the risk taken, with risk being quantified according to our granular internal model for capital. This is dependent, among other things, on credit ratings. In the case of externally rated bonds, our risk identification process is designed to check whether the verdict of the relevant External Credit Assessment Institutions aligns with our internal risk assessment.

Sustainability factors are broadly captured within our risk management frameworks. This includes screening for compliance with regulatory requirements for new investments (e.g. bribery and corruption or the Modern Slavery Act) and proactive surveillance of global news flows for material sustainability controversies, and then considering their impact on the financials, rating, spread or reputation of relevant issuers. Annual, sector deep dives are undertaken to monitor the most material sustainability considerations for relevant industries. This analysis also supports identification of leaders and laggards within sectors, considers individual performance over time, and identifies areas for engagement, or changes in investment appetite for further discussion.

In addition, we are alert to news flow concerning sustainability issues at borrower entities and will adjust our risk position according to the severity of any perceived impact to creditworthiness, reputation, or other relevant characteristic. Often a concern will be specific to a particular issuer which means that risk management is done on a case-by-case basis.

Material Sustainability Issues

Our process for the identification, assessment and management of risks relies on a broad range of credit and sustainability factors. From a climate perspective, our framework considers physical, transition and liability risks. From a broader perspective, we consider, within our assessment of risk, involvement in commonly accepted controversial activities and material social and governance factors, such as human rights, diversity & inclusion and Board oversight. We utilise quantitative indices (e.g., the Carbon Intensity of the portfolio) to manage our overall portfolio, sector, and individual issuer exposures to sustainability risks. High Carbon Intensity issuers are considered in terms of how rapidly they are decarbonising and the impact on our current and projected future portfolio Carbon Intensity. This supports responsible stewardship by managing our own risk, as well as financing genuine real world emission reductions.

As above, this is supplemented by sector and thematic deep dives on material topics to understand and manage our exposure, while our sustainability data provider supports portfolio screening for exposure to certain controversial products, or UN Global Compact violations. Where sustainability-related issues are current and deemed sufficiently material, issuers may be added to the Credit Watchlist[3], as per the existing risk framework. The assessment of relevant sustainability factors also forms part of the credit due diligence process for limit increase requests for existing issuers.

Case Study - Formalising Nature Considerations in our Framework

Rothesay 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, the impacts of and dependencies on nature across our investment portfolio, supply chain and own operations.

Our portfolio contains 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 are focussed on the water and deforestation exposure in our investment portfolio as, in a similar way to climate, our financing activities present the greatest nature-related risks and opportunities.

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.

[3] Issuers placed on the Watchlist undergo additional monitoring, ensuring that additional controls are implemented, and concerns are reported and escalated to all relevant stakeholders.

Geographic Considerations in our stewardship and investment approach

Rothesay has a single fund and therefore it is not necessary to consider differences across funds. Our investment strategy for this fund 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 is 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.

Transition Pathways: Regional Differences

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 leaders and laggards not just within sectors globally, but also within operating regions. As we expand our investments in countries such as US and Australia, we ensure we consistently align with the Stewardship Code regardless of jurisdiction.

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 prefer to invest in shorter duration and liquid bonds which allow us to divest if they are not met in line with our target dates. In addition, geographic considerations are central to the appropriate identification and management of physical risk, which is a climate risk type we seek to avoid. This is most material for investments tied to locations with elevated exposure to physical risks such as flooding or wildfire and includes corporates with operations concentrated in susceptible regions. The exact nature of this risk will vary dependent on specific location of each asset.

Case Study – Analysing Australian Physical Risk

We expect the increasing frequency and severity of acute weather events to test the resiliency of some Australian infrastructure assets against climate change. Certain regions of Australia have high potential for damage and disruption from storms, flooding, and bushfires. As part of our case-by-case assessment, we consider the vulnerability and likely impact from such events on potential investment opportunities. In 2023, we conducted analysis of the risk posed by wildfire to an Australian transmission issuer in New South Wales. This issuer operates an electricity network which is expected to support the energy transition given the pivot to electrification of the energy supply in Australia. We assessed the risk to its physical infrastructure from wildfire and the mitigation controls in place to manage this potential risk. The outcome of this assessment was that the issuer's proactive risk management approach to this hazard and the specific location of its infrastructure meant this risk was being appropriately managed and we were comfortable to invest in this entity.

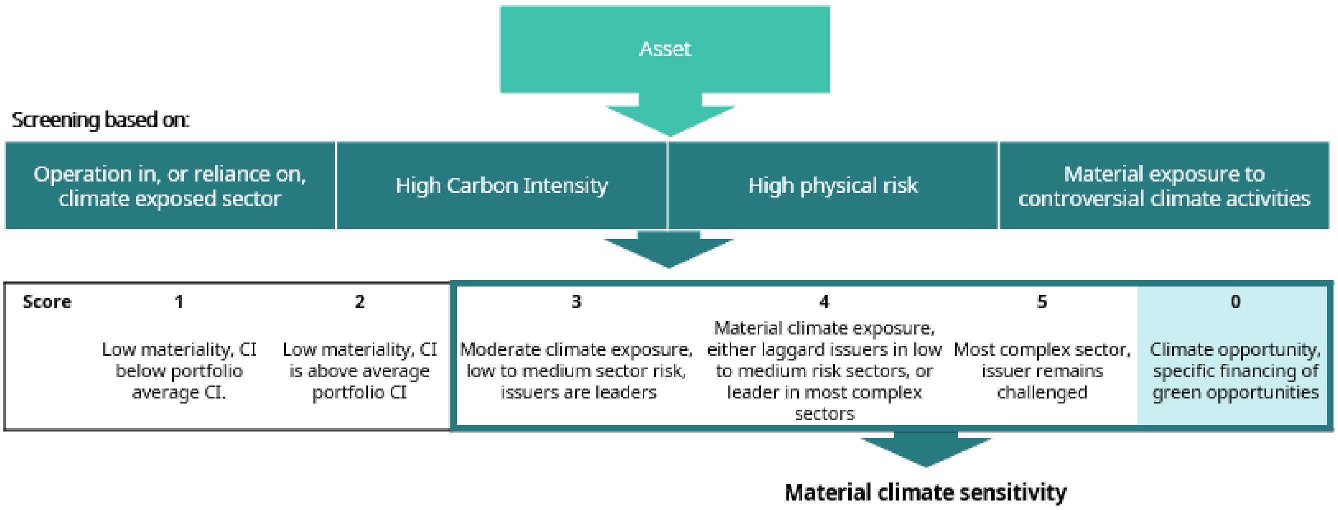
Asset Class Considerations in our stewardship and investment approach

As mentioned above, Rothesay has a single fund and therefore it is not necessary to consider differences across funds. However, inherent differences between asset classes require the acknowledgement that there is not a one-size fits all approach for integration of sustainability considerations. Whilst we seek to create a holistic framework across our activities, the below highlights some of the differences in our approach to ensure risks are appropriately identified and managed. We also consider the overlay of physical risks from a geographic location where issuers or asset classes have fixed geographic footprints.

Corporates & Infrastructure

As part of our sustainability analysis, we use a climate scoring approach to identify and assess entities 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 materiality of climate (transition & physical) risks. Screening is based on whether an issuer operates in (or has a significant reliance on) a climate exposed sector, has a high Carbon Intensity, is exposed to significant physical risks and/or has material exposure to a controversial climate activity. Scores provide a quick and easy way to understand climate exposure within our portfolio and are updated as issuer performance evolves. They also provide an additional lens through which to identify priority issuers with which to engage on climate issues.

Our climate scorecard uses materiality criteria to trigger additional review as outlined below:



Issuers that do not reach the materiality threshold are scored 1 or 2 based on Carbon Intensity only. Climate Material issuers are ranked between 3 & 5, based on the intersection of:

- a sector score reflecting the challenges climate poses in terms of long-term demand and available abatement technology.
- an issuer score which reflects effectiveness of the issuer's response & management of transition risk.

Climate Opportunity issuers are scored 0 based on financing for verifiable sustainable activities such as renewable energy or waste management investments.

In addition, our sustainability framework also screens for controversial products, defined as activities/products that are deemed as having greater levels of associated sustainability risks based on their perception and/or impacts.

Material Social and Governance factors are also considered as part of our investment process, including wider sustainability risks, such as bribery and corruption and impacts on community, labour rights and biodiversity.

Case Study – Our Material Climate Score Data

Using the outlined framework, at YE 2023, 9.5% of in-scope portfolio issuers (MV basis) were allocated a material climate score. The majority of these issuers were assigned a score of 3, which remains aligned with our broader climate strategy to focus our investments on transition-aligned entities. As discussed in Principle VIII, climate score forms part of our engagement selection criteria.

Public Finance

Our exposure to public finance 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, which reduces their transition risk, and many provide critical facilities or vital social benefits. Where entities have fixed market locations, such as US non-profit healthcare, we consider potential physical risk and demographic shifts as part of our assessment.

Project Finance

The limited purpose associated with a project finance asset allows specific assessment of its sustainability positioning, including physical risk for any fixed assets, and transition risk. Aspects of climate change, such as policy risk, may impact the long-term assumptions of stable revenue and cost base, especially for projects in climate intensive sectors or regions. In addition, transactions are often illiquid and long dated. Therefore, for this asset class our assessment puts additional importance on the underlying asset, plus evidence that the project has priced in potential additional sustainability-linked costs and has feasible, credible transition plans to indicate how they align with our climate commitments.

Case Study – Reviewing a Defence-linked Project Finance Deal

In 2023, we were approached with an opportunity to support the financing of a UK defence transportation project. Defence is complex within the sustainability space given its ability to provide necessary protection as part of national security but also potential to cause significant harm. Due to this, we monitor exposure to defence-related activities as part of our controversial activity monitoring under our sustainability framework and conduct due diligence to ensure our financing is aligned with our investment strategy. The nature of the transaction also required consideration of its climate transition strategy. We conducted a detailed review of the issuer to understand the specific types of activity being undertaken, the robustness of governance mechanisms in place and their decarbonisation pathway. Having confirmed that the financing was fully aligned with our Responsible Investment & Stewardship policy, and its climate performance met our expectations we proceeded with this transaction. Given its exposure to defence sector, this asset is included in our controversial activity monitoring process.

Property

Our approach recognises that the value of assets linked to properties within the portfolio may be impacted by the physical risk associated with location, as well as transition risk arising from policy actions. We have historically targeted high-quality properties, resulting in naturally stronger EPC performance, and this remains a critical element of our risk assessment for new investments. As a result, we are not exposed to the UK changing EPC requirements for offices, despite the fact that less than half of London offices meet the new EPC C minimum requirement that comes into force in 2027.

Of the asset classes in which we invest, property is one of the most exposed to physical risks. Due to this, specific property screening for flood risk is undertaken as part of standard direct lending activities. Our financial exposure to climate risk stemming from property lending that passes our screening tests is estimated by conducting scenario analysis for both physical changes and changes to energy efficiency rules. Where Rothesay funds the origination of mortgages in the UK, our lending criteria specifies the type of properties that are acceptable, including factors such as construction, location, and environmental perils such as flood risk.

Sovereigns

Our liquidity 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. The only other material exposure is to the US, which is also driven by our interest rate and liquidity management strategy. We have limited ability to alter our investment approach to these sectors as they support our liquidity needs, but to support climate outcomes in this asset class we led the NZAOA initiative to promote disclosure and assessment of sovereign emissions and strategy.

Case Study – Developing Sovereign Metrics

In our 2023 Climate Report, we included a more detailed analysis of our Sovereign emissions. As part of our work with the NZAOA, 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 and 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.

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.

Due diligence

Alongside the analysis undertaken by credit and trading, our Risk, KYC Operations and Compliance teams support and conduct “know your customer” due diligence on borrowers new to the firm using a risk-based approach in line with relevant legal and regulatory requirements and expectations.

All due diligence includes the consideration of sustainability factors, where this may either have a reputational impact or regulatory compliance implications. The factors considered depend on the sector concerned. We acknowledge that specific disclosure requirements relating to sustainability are currently still in their infancy, with those surrounding climate change being the most developed while those on wider sustainability themes yet to be implemented in the UK. However, there are several areas of existing legislative and regulatory requirements that drive how we consider proposed investment opportunities from a sustainability perspective, including the Modern Slavery Act 2015, various legal and regulatory requirements relating to Financial Crime, UN Guiding Principles on business and human rights and OECD guidelines.

Due diligence undertaken by KYC Operations and overseen by Rothesay’s Money Laundering Reporting Officer (‘MLRO’) is critical identifying risks associated with financial crime. Having an open and constructive dialogue between the business, assessment teams and second line control functions helps to effectively assess the spectrum of risks involved in a relationship, both at its outset and thereafter on an ongoing basis.

Typical indicators of increased financial crime risk include:

- Complex and opaque ownership structures
- A nexus with high-risk jurisdictions, particularly those on Financial Action Task Force (FATF) ‘black’ or ‘grey’ lists or where reputable agencies have expressed concerns about a country’s anti-money laundering and terrorist financing controls.
- Government involvement or connection to individuals including Politically Exposed Persons (PEP).
- Adverse media indicating historic or current bribery and corruption issues or other similar financial crime issues.

VIII. Monitoring managers and service providers

Principle 8: *Signatories monitor and hold to account managers and/or service providers.*

Our Approach to Monitoring Service Providers

The Business Controls Committee (BCC), chaired by the Chief Operating Officer (COO), is responsible for the implementation and monitoring of the Vendor Management Policy. The Policy is designed to ensure that the legal, regulatory, information security, reputational, commercial, operational, and financial risks associated with third party relationships are appropriately managed. Critical and strategic vendors are subject to periodic reviews, which consider the quality of service provided, operational performance, and financial risks, including sustainability-related risk factors. Regular dialogue is maintained between the vendors and relevant business areas as part of ongoing operations.

Rothesay does not employ any external asset managers except those who manage our cash which is held at banks or rapid access money market funds.

Our suppliers

Rothesay's procurement spend spans a wide range of companies and sectors, from professional services, marketing, and goods such as IT systems and desktop hardware and software. Our spending generates a positive economic impact in the marketplace and supports the development and growth of our suppliers and companies that supply them.

We closely monitor the performance of our suppliers through regular meetings with them and on-site reviews and audits. The management of suppliers is overseen by relevant committees, which conduct a formal review of our critical suppliers at least annually. This review considers areas such as service delivery performance, adequacy of controls, data protection and information security and alignment with relevant regulation. This also includes a review of their sustainability performance and a requirement on the supplier to confirm their commitment to ensuring their business is free of slavery.

All new suppliers are fully checked against our onboarding criteria, and we require suppliers to confirm their commitment to ensuring that slavery and human trafficking are not present in any part of their business. We do this at the outset of the relationship and then on an ongoing basis.

As required annually by the Modern Slavery Act 2015, we have published a statement on our website describing the steps taken by Rothesay to ensure that slavery and human trafficking is not taking place in any part of our business or in any of our supply chains. The statement notes that we expect our suppliers to ensure fair employment practices. For example, we require our cleaning suppliers to pay their personnel, who work at our premises, a salary which is equivalent to (at least) the London Living Wage. Our most recent statement can be found here (https://www.rothesay.com/media/c3md0yij/modern-slavery-statement-2024.pdf).

The Solvency II Directive (2009/138/EC) ("Solvency II"), PRA Rulebook and FCA Handbook include regulations in relation to the outsourcing of what it defines as "critical or important" functions. Rothesay classifies outsourced functions as "critical or important" if they are essential to the operation of the Group, i.e. the Group would be unable to deliver essential services to policyholders or other key external stakeholders without the function.

Critical and important suppliers are subject to heightened approval processes and annual reviews which span not only their financial and operating performance but look closely at areas such as cyber security to ensure our policyholders' data is protected. We also consider any environmental risks associated with the goods or services procured and look at suppliers' emissions and climate targets.

Case Study – Implementing Our Supplier Code of Conduct

Effective stewardship is considered across all aspects of Rothesay's operations including our supply chain. We have introduced several elements into our vendor management process to ensure material risks are considered in this activity. We have a Supplier Code of Conduct that outlines the expectations we have of our suppliers.

The Supplier Code of Conduct's purpose is to set clear standards around the expectations we have for our suppliers and is applicable to all suppliers which provide formal provision of goods or services to Rothesay. It covers areas including ethical behaviour, data protection, human rights and modern slavery, and anti-competitive behaviour.

From 2023, during the onboarding process, new suppliers have been asked to attest to our Supplier Code of Conduct or confirm they have their own public code of conduct that meets our expectations. During annual review of existing suppliers, our most critical vendors have been asked to attest on the same basis. We have received positive reception to this additional engagement with our suppliers that supports wider stewardship throughout our activities.

Third Party Administrators (TPAs)

From the point of view of our policyholders, the companies in our supply chain with whom we work most closely are those performing pension administration: Capita, Aptia (formally Mercer), and Willis Towers Watson. They make payments to pensioners, track life events that affect pensions (e.g. divorce, retirement and death) and are the first point of response to customer queries.

Principles I and VI describe the daily and monthly processes by which we ensure our TPAs are operating effectively and diligently, providing service resilience, making payments on time, supporting vulnerable customers, protecting key data, and meeting customer service expectations.

As part of our annual review process, we take reasonable steps to satisfy ourselves that these companies pursue stewardship goals that are compatible with our own. This primarily relies on their public disclosures, supplemented where appropriate by wider information sources including news flow and ESG rating platforms such as MSCI. We track performance and note areas of poorer performance in comparison to peers. To the extent we are unable to source satisfactory information, or where we need more detail on a particular issue to appropriately determine materiality, the Rothesay team engages directly with our contacts at the companies.

Rothesay is dedicated to having robust controls to ensure the security and digital resiliency of our business and we work in partnership with our TPAs to ensure their approach to cybersecurity and data protection is consistent with our own.

In May 2023, we were informed that the personal data of approximately 50,000 Rothesay policyholders was impacted by a cyber incident at Capita. All impacted individuals were contacted by Rothesay to reassure them that their pension policies and payments were unaffected and to provide them with guidance on what steps they should take to protect their data. They were also offered access to a specialist fraud monitoring service, free of charge. We worked very closely with Capita to understand how its cyber incident occurred, what steps it subsequently took to confirm its systems were secure, and what improvements it has made to its information security controls. We also carried out a wider internal review to ensure that lessons learnt and work done to improve operational resilience of our cyber and technological risk management were shared with our other strategic business partners.

Case Study - Engaging with TPAs

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 (in addition to our standard 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.

Specific sustainability service providers

In pursuit of our duties of stewardship, Rothesay utilises a range of third-party data sources. Examples include, but are not limited to, Bloomberg, CDP, Planetrics (a subsidiary of McKinsey) and MSCI.

The sustainability data universe is continuing to evolve, with better coverage, new metrics, and improved methodologies. As part of this, we continue to review the third-party data providers we use with reference to our own needs going forward alongside developing our internal capabilities. For example, whilst we do not currently utilise external ESG scores as a portfolio metric, due to significant industry variation dependent on provider, we continue to monitor this area for developments. We also understand that engagement is an important part of working with service providers and look to provide feedback and have open conversations with all our sustainability data providers.

One of the reasons for using multiple data providers is to check consistency. Where the numbers provided by one vendor exhibit material disagreement with those of another or with our independent research, we bring it to the attention of the relevant third-party and seek to ensure our data source is the most appropriate.

We do not believe that a lack of data is good excuse for lack of action and do our best to make reasoned estimates as a substitute when emissions information is not published by issuers or recognised data providers.

IX. Engagement

Principle 9: *Signatories engage with issuers to maintain or enhance the value of assets.*

Rothesay's Engagement Strategy

As part of our mission to provide security to our policyholders, engagement to encourage more sustainable practices that yield long-term financial returns continues to be an important aspect of our approach to strategy.

We are dedicated to delivering positive outcomes for all our stakeholders and given the long-term nature of our business, 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 scheme trustee boards, industry groups and regulators and policyholders.

Engagement with issuers within our portfolio forms a central ongoing part of our BAU risk management with discussions seeking insight on topics such as an issuer's exposure to evolving macro or credit risks, operational risk and cyber risk. We also engage where issuers are asking consent for changes to terms and conditions which require review and approval by the Waivers Committee (see Principle XII), to support our appropriate response to information. This activity forms part of our well-established process of identifying, managing and monitoring risks on a continuous basis and allows Rothesay to make rapid informed decisions to manage our portfolio in line with our business objectives.

On an ongoing basis, we have interactions with the PRA, FCA and the Government on a broad range of industry, market and sustainability-related activities. These interactions are often carried out through industry group discussions. This includes ongoing engagement with the UK Government around Net Zero Strategy, with topics including implications for our industry and how we can meaningfully support this transition. In 2023, outcomes from this type of engagement included incorporation of our input to the Government on considerations for financing low carbon technology, including their future power generation and nuclear power strategies.

Interactions with the PRA focus on material matters relating to the business, led by the CRO, including relevant consultations such as HM Treasury's Review of Solvency II. Based on the discussions relating to this review, we have taken the action to continue to evaluate new ways in which we can invest in UK infrastructure, clean energy and other forms of productive finance and monitor this data point into our Risk MI pack. We engage constructively with the FCA on key regulatory initiatives and matters impacting clients. We do this both directly and via trade associations. Details of these discussions are inherently non-public given their nature.

We conduct daily engagements with issuers as well as stakeholders such as regulators and industry groups to allow us to understand and respond to incoming challenges and opportunities. Directors and management also have ad hoc meetings with pension scheme trustee boards throughout the year on a range of stewardship related topics. In addition to our standard engagement activity, we also have a specific Sustainability Engagement Strategy to consider our portfolio wide sustainability objectives. These engagements are often focused on climate change in line with our specific commitments in this area.

Rationale for our Sustainability Engagement Approach

As mentioned, given the nature of our business, our approach to sustainability-specific engagement remains focused on specific and direct communication with the most material corporate issuers within our portfolio. We have chosen to undertake this approach to responsible engagement as it ensures our efforts can be appropriately resourced, focused on material factors where we can have the most influence and support our specific climate strategy and broader risk management approach. It also contributes to our signatory obligations as a member of both the PRI and NZAOA. As we do not use external asset managers, all our engagement with issuers is coordinated by members of our Credit and First Line teams.

Our stewardship approach continues to focus on climate risk, given the unique challenges and forward-looking assessments required to manage and mitigate this risk. We utilise a risk and impact-based approach to our engagement with issuers in order to focus on engagement with issuers where it could make the most impact to the mitigation of risks. In addition, in relation to broader sustainability factors, triggers for engagement include involvement in controversial activities, deterioration in performance and headline risk.

As outlined in Principle VI, Rothesay runs a single portfolio all elements of which are potential subjects for our engagement activity. Within this portfolio, there are, however, variations in our engagement approach due to the consideration of asset class and/or geography.

Main Engagement Objectives

a) to build knowledge (engagement for information): 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 for change): engagement focused on encouraging issuer to take specific action such as production of best practice aligned disclosures and declaration of more ambitious, science-based targets.

As a key objective of our engagement is the drive for increased and improved climate disclosure from our investees, we are happy to have seen a 3% improvement in our overall portfolio coverage from last year.

Case Study - Ongoing enhancements to our Climate Material Engagement

As outlined in our previous Stewardship Report, we have a clear process for the identification of issuers as part of our climate engagement framework. We engage with at least 20 distinct climate material issuers each year, which represent a material contribution to the Weighted Average Carbon Intensity (WACI) of our Publicly Traded Corporate Debt (PTCD) portfolio. In 2023, criteria for priority engagement included:

- high contribution to the WACI of our PTCD portfolio at issuer level;
- Climate Material issuers with no SBTi target; and
- evidence of backtracking or reduced ambition of targets.

The utilisation of these criteria helps ensure our engagement is focused, in each case identifying a specific desired action by the issuer (e.g. greater granularity of disclosure, commitment to setting science-based targets, commitment to publishing a transition plan).

Responsible Engagement Variations by Asset Class

Public Corporate Bonds

Among our asset classes, public corporate bonds admit the greatest number of engagement channels and hence ability for Rothesay to request specific information and communicate our expectations on best practice. Beyond BAU engagement with issuers in our portfolio commonly relating to credit-related considerations, the most common forms of engagement with issuers in this asset class relate to requests for greater granularity on climate-related targets and/or transition plans. As outlined in case study above, we have a formal commitment to engage with entities in this asset class.

Case Study - Controversial O&G Exposure

On an ongoing basis, we monitor exposure to controversial activities within our portfolio and screen to ensure that we remain aligned with our Responsible Investment & Stewardship Policy. A trigger for engagement is identification of a change in activity relating to one of our identified controversial activities.

In 2023, our ongoing screening identified that one of our holdings had a significant equity investment in an entity with high tar sands exposure. While the position, strictly speaking, remained aligned with our investment criteria because the issuer was not directly involved in the activity and it only represented a small part of their revenue, we took the opportunity to engage to seek further details on the rationale behind the investment, discuss their long-term plans and register our concern with this exposure. Our engagement confirmed that the position was aligned with our exclusion threshold and the issuer provided additional information that they were appropriately managing the underlying risks of its exposure. We will continue to monitor their exposure to this activity and escalate if any material change occurs that appears to indicate an increased risk.

Case Study - Policy Risk in Automotive Sector

As part of the annual review we conduct on the Automotive sector, we noted variations in EU opinions on electric vehicle policy as a growing risk. We identified an issuer within our portfolio that could be materially impacted by country-level opposition to the 2035 ICE ban in the EU given their operational locations and strong EV stance.

Countries including Germany and the Czech Republic have opposed the EU ban on ICE vehicles due to their support for climate-neutral fuels (e-fuels). Their argument was that such fuels could allow ICE vehicles to operate with net zero CO_2 emissions, providing an alternative to electric vehicles that preserves existing industry infrastructure. However, such an approach has been criticised due to lower energy efficiency and the possibility that a competing technology that could delay transition. This issuer was identified as particularly impacted by these discussions because of its company's headquarters and significant investment and focus on EVs within its transition strategy. We therefore engaged with their Investor Relations and ESG teams to understand how their business plan could be impacted by this new policy.

During the engagement, discussion focused on the issuer's electric vehicle planning and confirmed that they supported the EU's strategy to shift to electric vehicles given the progress already made in this area and, in their view, irreversible changes made within the industry to accommodate this transition approach. This engagement reconfirmed our view that the issuer is appropriately considering the most material risks facing it, monitoring changes in regulatory environment and taking steps to ensure its transition plan remains robust and credible.

Property Portfolio

Within our property asset class, we have continued to engage with Social Housing entities and their regulator to support disclosure on material issues and to better understand specific risks for this sector. A core focus of engagement with this sector is on social themes. The sector has an ambitious programme of fire safety upgrades and property enhancements including those designed to achieve an EPC rating of C by 2030. All this must be done whilst balancing the viability of their business, high inflation and the cost-of-living impact of rising rents on their tenants.

We are working with third parties to improve the data we have available on our mortgage portfolios relating to emissions and physical risk, and with borrowers in the commercial real estate sector on sustainable building standards, as described in the case study in Principle XII.

Case Study – Social Housing Living Standards

In 2023, we conducted a detailed review across our UK Housing Association holdings in response to increasing concerns relating to the scale of damp and mould in social housing. We engaged with issuers to understand their processes and procedures to manage quality of stock and assess their exposure to damp and mould.

The outcome from this discussion was that while there is room for improvement in the sector, our Housing Association holdings were largely free from severe cases of damp and mould and where issues had been revealed, they had effectively implemented processes and procedures to improve identification and remediation of damp and mould and surveillance of overall stock quality. Therefore, no immediate change to our holdings was necessary.

Furthermore, the Regulator of Social Housing has also increased scrutiny over Housing Association's management of stock quality with newly vested powers under the Consumer Regulation Act. The new act includes improved oversight allowing the regulator to regularly inspect larger landlords to ensure they are meeting consumer standards and impose penalties on landlords in breach of standards or failing to remediate damp and mould within appropriate timescales.

Sovereign Bonds & Public Finance

As previously mentioned, we are involved in ongoing engagement with policy makers and industry groups to support both the performance of our Sovereign and corporate positions and to encourage development of policy in line with good stewardship investment practices. This has been supplemented by work with the NZAOA to enhance sovereign emissions reporting. This reflects the desire to better measure and understand emissions pathways, given our liquidity strategy constrains changes in deployment in this asset class.

In relation to public finance transactions more widely, utilising industry groups is also our main approach for engagement especially focused on greater granularity of disclosure by municipal issuers, recognising their disclosure standards lag their corporate peers.

Case Study: Communicating Importance of Climate Transition to US Airport

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 looked to:

- Understand how the issuer will manage its own emissions while managing its relationship with key stakeholders (mainly airlines) when undertaking contract renewals.
- 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 sustainability 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 (ACI) proposed ESG framework. Communication has taken place via multiple 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.

Case Study: Private Debt: Encouraging High Emission Asset Disclosure

We hold a number of assets that are related to high emissions intensity activities, for which we do not receive reported data at an asset level. As outlined in our Climate Report, we calculate deal-specific estimates for emissions and associated revenue for these holdings but acknowledge these estimates require several assumptions. With the aim of improving the data quality of our climate metrics beyond our estimates, we have undertaken multi-year engagement with these issuers in an attempt to gain properly measured asset-level data.

In 2023, we engaged with the Parent entity of one of these assets to clarify the specific activities being captured under their corporate disclosures for direct Scope 1 & 2 emissions to ascertain whether the assets we finance were being included. As part of this conversation, we explained the rationale behind our questions and the benefit that more granular emission disclosure by the issuer would bring to the accuracy of our reporting.

As a result of this engagement, the issuer committed to providing asset-level data for our specific holdings to us on an annual basis, starting from their 2023 data. This will enhance the data quality of our disclosure for a climate material entity (representing ~3% total portfolio Carbon Intensity at YE23) within our portfolio. We have subsequently followed up with the issuer in 2024 and have received this information.

Geographic Considerations in our Engagement Approach

As outlined in Section VII, the geographies in which we invest are considered within our identification and management of risks, as well as our subsequent engagement approach. Whilst we apply a consistent view of expected behaviour across our issuers, it is important that we are mindful of the differences between the political landscapes of jurisdictions in which issuers operate when assessing their performance. This is because regional influences such as the regulatory environment and public support have an influence on the ability of an entity to meet expectations within certain timeframes, especially in relation to their sustainability-linked decarbonisation journey. In so doing, we can tailor our engagement approach to encourage behaviour change in the most effective way.

Case Study - Energy Security and Regulatory Environment Blockers

We finance several issuers operating in regulatory environments that make decarbonisation more challenging due to restrictions in the actions they can legally take. An example is the closure of thermal coal plants. Such challenges evidence the complexities of global transition and whilst these blockers do not mean we would deviate from our responsible investment strategies, we seek to understand the rationale behind slower decarbonisation to tailor our engagement approach by region.

When engaging issuers with limited ability to close coal plants immediately, we seek evidence that other steps are already being taken so that over the longer term, the issuer meets our decarbonisation and coal closure expectations. This includes monitoring the company's own engagement with their key stakeholders such as policy makers and regulators. We are clear that we will need public commitments that align with our portfolio positioning strategy to remain invested long term. Responses to this engagement are recorded and compared to peers, with results contributing to our climate scorecard which is a driver for investment appetite. In 2023, as part of this strategy, we identified an opportunity to support a utility by directly financing the early decommissioning of one of its coal plants. We were pleased to be able to finance an activity that clearly results in a transition away from fossil fuels in line with our climate commitments.

Sustainability Engagement Progress & Outcomes in 2023

We have created a specific sustainability engagement tracker to record each engagement undertaken under this framework. This document records the rationale for engagement, entity type (and, if relevant, sector), method of engagement and outcome of engagement including any escalation requirements. On an annual basis, we report core themes of our engagements and outcomes to senior management to track effectiveness of our activities, progress against our engagement commitments and to identify areas for ongoing attention and opportunities future improvement.

As part of our risk management framework, we regularly engage with issuers within our portfolio on a wide range of topics. In addition to these BAU engagements, during 2023 we recorded 36 specific issuer engagements relating to sustainability topics, not including broader policy and regulatory engagement activities which are ongoing throughout the year.

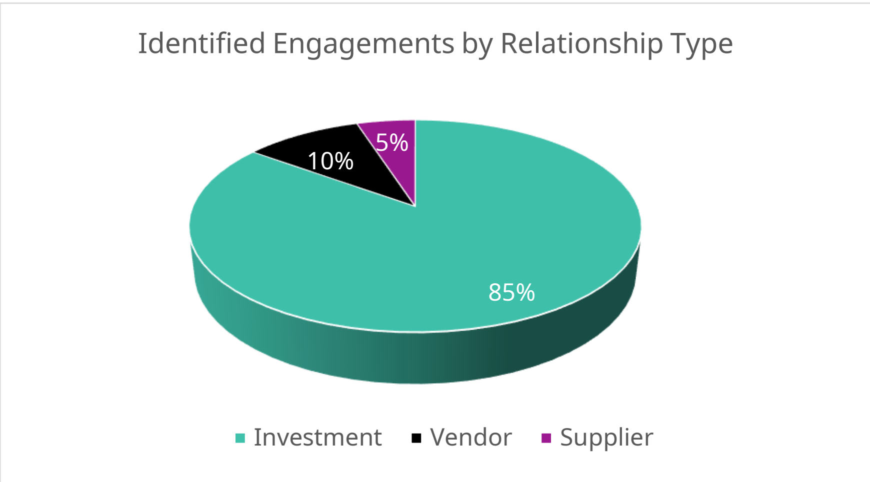
These predominately focused on climate interactions to align with our commitment to engage with entities having the greatest climate relevance to our portfolio. We select entities for climate engagement based upon a combination of high current emissions or inadequate reduction targets.

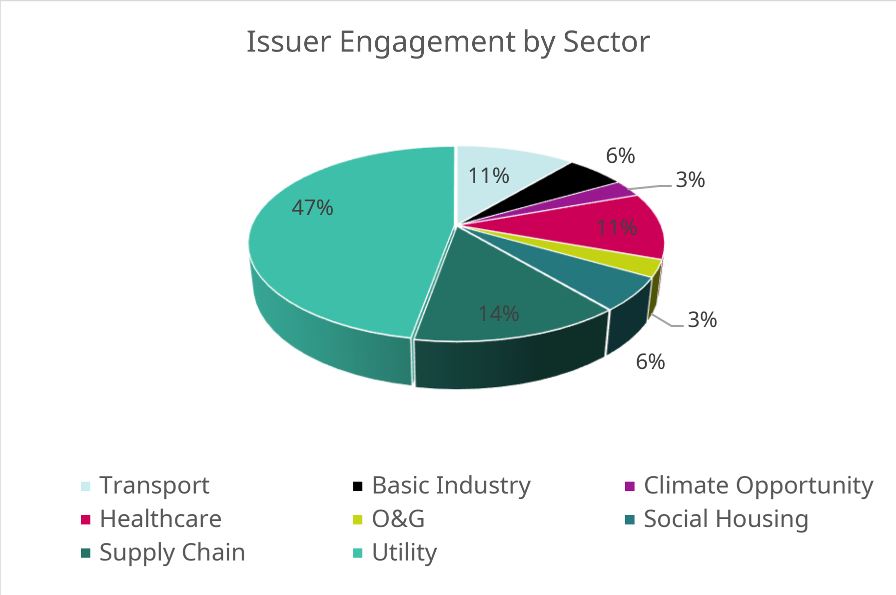
Our engagement once more exceeded our target to engage with at least 20 of our most emission intensive companies within our PTCD sub-portfolio (we also engaged with 36 last year), with a more specific outcome driven approach focusing on topics such as SBTi alignment and fossil fuel exposure. Targeted entities were concentrated within the corporate universe given the particular importance of understanding climate risks in this sub-section of the portfolio. We continue to aim to conduct more of our engagements face-to-face (31%) which, alongside utilisation of virtual meetings (56%), can often promote a more in-depth conversation than via email (14%).

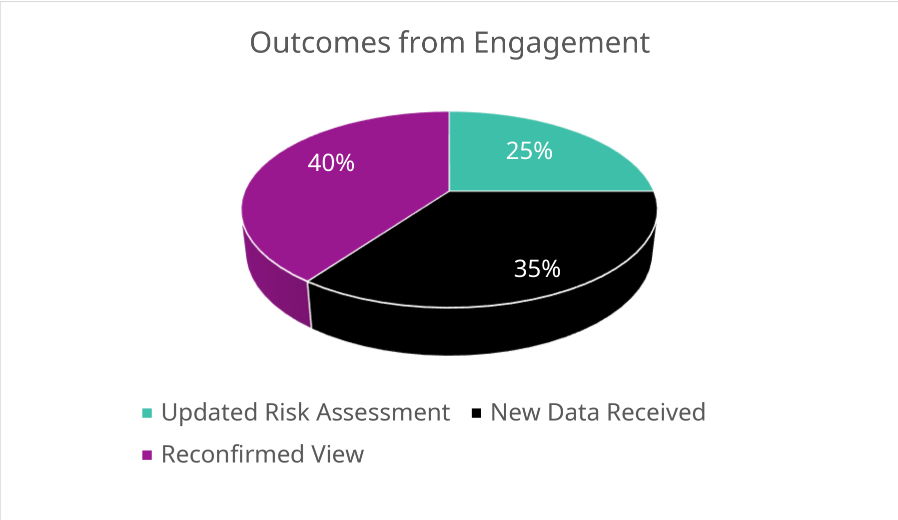
Our engagements received a 95% response rate continuing the high responsiveness to our activities. In many cases, it can be challenging to accurately assess whether a lack of response to our engagement reflects entity views on sustainability issues or prioritisation of more material stakeholders. However, post our engagements on specific topics, such as coal exposure and disclosure best practice, several entities have published updates to their plans to align more closely with our outlined expectations shared during engagement. This typically included clarity on accelerated coal exit plans, a key target for our engagement, justifying our engagement first approach. Whilst we cannot attribute this change solely to our engagement, it indicates that our interactions on sustainability-related topics may contribute to entity behaviour change and greater disclosure.

We have a multi-year approach to review behaviour change against raised actions, responsiveness, and impact on credit fundamentals on a case-by-case basis. This is discussed in more detail under Principle XI: Escalation.

Engagement Statistics




Issuer Engagement by Sector
11%
6%
3%
47%
11%
14%
3%
6%
Transport
Basic Industry
Climate Opportunity
Healthcare
O&G
Social Housing
Supply Chain
Utility


Outcomes from Engagement
40%
25%
35%
Updated Risk Assessment
New Data Received
Reconfirmed View

X. Collaborative engagement

Principle 10: *Signatories, where necessary, participate in collaborative engagement to influence issuers.*

Rothesay's Collaborative Engagement Strategy

Along with our bilateral engagement approach, we seek to participate in some collaborative engagement efforts. We generally conduct this through formal industry groups focused on specific areas, 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. We are also keen that the groups reflect the interest of debt holders, as many well-established collaboration initiatives are predominantly equity led. This ensures that our collaborative engagement has a genuine impact.

While most of our engagement is achieved bilaterally, our participation in industry groups such as the Association of British Insurers (ABI), the PRI, the NZAOA and the CFRF allows us to collaborate with peers and participate in specific initiatives seeking to enhance industry best practice, or sector and issuer action. In addition, through these collaborations we are able to consider, and where appropriate reflect, industry perspectives and recommendations when developing our own stewardship and sustainability approach.

We have been particularly active as a member of the Net Zero Asset Owner Alliance contributing to multiple workstreams such as: the Policy; the Engagement; and the Monitoring, Reporting and Verification (MRV) work tracks. Through this initiative we have sought to assist in the development of publications and recommendations that support greater consistency and drive action by issuers. Below we list some examples of collaborations within which we believe we have had a significant influence. Other examples can be found in our 2022 Stewardship Report:

Case Study – NZAOA Sovereign Working Group Lead

Whilst we acknowledge that we have limited ability to alter our investment approach to the Sovereign asset class as it supports our liquidity needs, encouraging sovereign decarbonisation is critical. Due to this, we have been heavily involved with the NZAOA initiative to promote disclosure and assessment of sovereign emissions. Our Head of Investment Strategy remains the co-lead of the NZAOA Sovereign working group, coordinating activity such as the development of a Sovereign reporting standard in the Target Setting Protocol that was published in 2023. Additional work has also been conducted to aggregate ASCOR indicators into a single assessment score for each of the 25 countries appearing in the first release of ASCOR data. Through co-leading this work, we are actively supporting the increase in reliable data and robust methodology for this asset class.

Case Study – Fourth Edition of the NZAOA Target Setting Protocol

As outlined in our 2022 Stewardship Report, we have multiple employees as active contributors to the Monitoring, Reporting and Verification (MRV) track. In a similar way to work undertaken in 2022, in 2023 we took an active role in the development of the NZAOA's fourth edition of their Target Setting Protocol.

We were involved in the discussions and subsequent actions to separate the Core Protocol (comprising information relevant to target setting) and the Background Document (comprising additional information and explanation of rationale). This change was made in order to improve the clarity of the NZAOA's expectations, targets and approach and will enable the outcome of the more effective usage of the documents. Given our involvement in the reporting, real estate, and Sovereign sub-tracks we also provided feedback on new content for these sections.

These documents continue to be an important part of NZAOA's collaborative action to encourage action by asset owner's to consistently disclose and establish action in wider society.

Case Study – ABI Stewardship-related Activities

We are an active member of the ABI, supporting its aim of promoting the activities of the UK's insurance and long-term savings industry, especially through engagements with policyholders.

We continue to be an active member of the ABI including being a participant in their Climate Change Working Group. The aim of this group is to act on the need for the insurance and long-term savings sector to do more to reduce carbon emissions, protect nature, promote a sustainable built environment and help society adapt to the impact of global temperature rises.

In 2023, our engagement areas included:

- active contributor to the ABI's response to the proposed Solvency II reforms.
- member of the Conduct Regulation Committee, Vulnerable Customers Working Group and Financial Crime Working Group.
- Regular attendee at sustainability-focused roundtables including on topics on development of reporting standards, FCA anti-greenwashing rule, short-term climate scenarios and evolving nature strategy.
- Respondent to consultations including input to the Transition Plan Taskforce request for feedback.

XI. Escalation

Principle 11: *Signatories, where necessary, escalate stewardship activities to influence issuers.*

Rothesay's Escalation Approach for Stewardship Activities

As outlined in our response to Principle IX, we take a materiality-led approach to determine the prioritisation of issues to consider and escalate. Per our Responsible Investment & Stewardship Policy, where we identify sustainability related issues, our preferred approach to encourage improvement in behaviour is through engagement rather than immediate divestment.

The most common concerns that we escalate further relate to the provision of data, lack of ambitious targets and fossil fuel exposure, especially when compared to an issuer's industry peers. As previously mentioned, we have often successfully obtained additional disclosure from companies simply by addressing a more senior individual. In addition, we will escalate queries relating to any ambiguity within the business plan with regards to its transition to a low carbon economy. We actively monitor and escalate our engagement upon the release of news surrounding a controversial activity or a change in business mix that threatens Rothesay's own sustainability commitments. Examples include a change in fossil fuel usage for a utility, changed involvement in activities commonly seen as controversial or revision to targets.

Variations in Escalation: Asset Class and Jurisdiction Considerations

We recognise that the pace of decarbonisation varies across geographies. Within our portfolio this means that our UK and EU issuers have typically made more progress than their counterparts in the US and Australia. Due to this, our escalation approach considers the geography of an issuer to ensure our stewardship approach is reasonable and relevant. Within our portfolio, the need for specific jurisdiction considerations is most evident in high emissions sectors such as utilities that have been subject to carbon taxation. Certain asset classes have more advanced disclosures, often driven by regulation and investor pressure, with listed corporates more advanced than public sector entities. We calibrate our expectations and threshold for escalations to what is reasonable within each sector, alongside the risk to us and our policyholders of more limited disclosure or targets. We provide clarity on potential consequences from escalation, such as divestment if coal exit plans are not met within our target time horizon.

In the context of being a debt-only investor, our escalation approach is restricted by the more limited mechanisms and influence we can utilise with relevant issuers. While there are occasions when issuers are unresponsive to our attempts to engage with them, it is more common for our concerns to be addressed at least in part either in writing or via a call with management meaning further escalation is not required. It is often challenging to determine whether our activities alone, including from escalation, result in a direct outcome or to accurately assess whether the lack of responsiveness to our engagement reflects an entity's own views on sustainability issues or its prioritisation of more material stakeholders. In those cases where our escalation actions elicit no response from the issuer, we continue making further attempts to engage in future years.

Rationale and Objectives for Escalation

In 2023, we made no material changes to our escalation approach with the same rationale in place for why initial engagement may be escalated.

As outlined previously, we monitor responsiveness to enable us to consider how we may choose to escalate in scenarios where we receive a continued non-response. In cases, where our escalation receives no response from the issuer, we continue to attempt to engage and record where non-engagement occurs. Level of responsiveness is one of the data points shared with internal stakeholders to track our activity.

A lack of engagement after escalation is considered within our internal climate score methodology, which is an input for investment appetite / decisions, and introduces a requirement for a follow-up engagement attempt to be made within next 12-months (unless the point of concern is otherwise resolved). Where actions are not being closed and without clear improvement plans, we may further consider taking escalation. actions such as explicit requests for additional disclosure, inclusion of sustainability covenants for bilateral loan positions or ultimately adjusting our holdings. This persistence has been successful and to date we have never had more than 2 years of non-response from any of the issuers we have contacted.

In cases where engagement confirms that a position we hold is outside of stated policy, this will be escalated to SC and ERC for discussion and the entity noted as misaligned with our Responsible Investment & Stewardship strategy. A plan will be established specifying a time scale over which the position must be reduced.

Case Study – Escalation due to inherited positions from new pension risk transfers

As a central part of our business, we often receive assets as part of new pension risk transfers. We received a number of new risk transfers in 2023. Our underwriting process for these transactions includes a review of any new assets in respect of their sustainability risk alongside their wider credit risks and valuation.

In 2023, we have continued to enhance this review so that it now:

- Checks alignment with our Responsible Investment & Stewardship Policy;
- Calculates the impact on our portfolio Carbon Intensity;
- Identifies and assesses higher risk entities including due to high spot emissions, UN Global Compact alignment and involvement in controversial activities; and
- Clearly states any entities identified as in breach of our position statements to be escalated for exclusion or flagged for sale, in line with our Responsible Investment & Stewardship policy.

In 2023, while no specific assets breached our position statements which would have required escalation, a portfolio we received in first half of the year did contain a name that would have previously been excluded but had changed its activities to no longer be in breach. This change in activity was escalated so that internal stakeholders knew the position could be held in our portfolio in line with our Responsible Investment & Stewardship Policy.

Case Study – Insufficient Information on How a New Energy System Aligned with Entities Climate Commitments

In 2023, we were approached by a US municipal entity with an opportunity to support improvements to their energy system. The project was identified as having potential fossil fuel exposure, so engagement was conducted to request project specific emissions data, energy system characteristics and longer-term emission reduction plan to confirm alignment with our Responsible Investment & Stewardship policy.

The engagement identified that while project emissions were available and the proposed new system would provide day 1 efficiencies, the KPIs for the project were to maintain rather than reduce emissions. Furthermore, the project planned to utilise a new fossil fuel dependent energy system throughout the financing term, raising concern about the project's alignment with our climate commitments.

We escalated our concerns with the project team, requesting further details on how the continued fossil fuel dependence of the project could be aligned with the wider municipal's Net Zero commitments. In response to this escalation, it was confirmed that while considered, use of a low-carbon alternative system had not been deemed feasible. The project had considered hydrogen-compatibility in its design, but no firm commitments would be made on the future introduction of fossil-free alternatives.

As a result of this escalation, it was determined that the responses received were not sufficient to enable us to fully assess the feasibility, timeframe and costs of future decarbonisation. We could not deem the project aligned with our Responsible Investment & Stewardship policy and therefore did not proceed with the deal.

XII. Exercising rights and responsibilities

Principle 12: *Signatories actively exercise their rights and responsibilities.*

Variations in our Exercise of our Rights and Responsibilities

As outlined in our responses to previous principles, our business model does not use asset managers to exercise rights and responsibilities on our behalf. All this work is performed in house, with oversight by the Waivers Committee.

We note that, as a debt only investor, the occasions and degrees to which we are able to exercise rights and responsibilities are often limited. However, in certain assets classes, for example project finance and property, we encounter more frequent opportunities to review such activities and take action where appropriate.

For most corporate actions that require bondholder consent it is straightforward for the asset management team to determine the measures that offer the most favourable outcome in terms of asset value and hence value to Rothesay stakeholders. We will invariably vote to adopt those measures.

For example, many of the bonds and loans in which we invest have, embedded in their documentation, various requirements and restrictions upon the issuer that are designed to limit their undertaking of risky activities and to require them to rebuild financial buffers in the event of poor performance in various business metrics. Failure by the issuer to take the necessary steps will typically lead to their being prevented from paying dividends and ultimately, once defined thresholds have been breached, allow the lender to commence default proceedings. The classic example occurs in our senior collateralised commercial real estate loans which typically state that should the loan to value ratio for the property rise above, say, 60%, then a cash trap will be enacted with a further deterioration to, say, 70% constituting an event of default.

Occasionally an issuer will contact us because they are aware that a threshold is close to being breached either passively due to market forces or because they wish to undertake a beneficial activity that will, as a side effect, lead to a breach. In such circumstances they ask us to waive our right temporarily to trigger a default and offer either a proposal for remedying the situation or other protections and payments. It is the job of Rothesay's Waivers Committee to consider these requests and to either deny or accede to them or instead suggest a compromise position.

In making these decisions the committee must weigh the desire to be a cooperative lender that supports the businesses in which Rothesay has invested with the requirement that we act prudently to maximise the chances that our loans are repaid, and the interests of our policyholders preserved. Most commonly we find that offering the flexibility to the borrower that allows them to make a good business decision in combination with our accepting a higher coupon or other improved terms leaves both parties better off.

As part of our trade due diligence for less liquid private placements and bilateral loans, we review prospectus and transaction documents to ensure all terms align with our investment principles and that relevant sustainability themes are identified. This includes utilising both internal and external legal expertise to review structure and specific terms. Where applicable, we seek additional information and clarity and may do this either in writing or during investment calls with borrower management.

When documenting bilateral loans, we take the opportunity to include restrictive covenants that bolster Rothesay's financial security.

Case Study – Sustainable-tagged Investments

In 2023, 2.6% of our portfolio was allocated to sustainable-tagged investments including 'Green' and 'Sustainability-linked' bonds. As outlined in Principle VII we seek to assess the credentials of any sustainable bonds we purchase in line with best practice. One of the new bonds we purchased in 2023 had a defined use of proceeds for wildfire mitigation and was marketed as a 'green' bond. As per our framework, we assessed whether the specific terms of this deal fully aligned with ICMA Green Bond Principles and whether it received external verification. This bond met our minimum requirements for classification as a sustainable-tagged investment. As one of our self-imposed responsibilities as a green bond holder, we checked that full allocation to such projects had been completed.

Case Study – Waivers Committee Case We have established a waivers committee to review requests to make adjustments to legal rights and covenants contained within investment documentation. The committee seeks to consider the impact of these requests on the security of our investment with the intention to support reasonable requests which promote the long-term viability of the issuer or sector.

We received a request from a local authority to grant a two-month extension to their delivery deadline for audited annual accounts. The publication delay was driven by delays in the national audit process and outside the council's control. The issue was expected to be addressed in subsequent years and the waiver was granted recognising the high quality of the issuer, the limited credit risk and the desire to ensure the stability of the sector.

Glossary

Term	Definition
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Carbon Intensity (CI - revenue basis	Carbon dioxide equivalent emissions per million dollars of revenue (CO2e/$M). This metric measures the carbon efficiency of a company’s economic output.
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.
Clients and Beneficiaries	A person, company or group to whom a firm provides or intends to provide a service. For Rothesay this includes a range of stakeholders including our individual policyholders, and the trustee boards that represent their interests during a pension risk transfer transaction.
climate material	Lowercase 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 assessment of materiality assessment.
Climate Material	Uppercase 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 (uppercase) have specific characteristics that increase exposure to impacts from climate change and required additional monitoring.
Climate Scenario	A hypothetical but realistic representation of the future environment constructed to support investigation of the potential impacts of climate change.
climate opportunities / climate solutions	Lowercase 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 and development of new products/services to support climate transition and build resilience.
Climate Opportunities	Uppercase usage - Indicates an entity/sector/activity that after review under Rothesay’s sustainability framework has been deemed to meet the criteria of specifically financing green opportunities, such as renewable energy investments and low carbon energy.
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 CO2 equivalent.
Consumer Duty	An FCA requirement which establishes a principle and rules requiring firms to deliver good outcomes for retail customers.
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 policy maker) 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 period. Escalation differs by asset class and issuer type, but generally involves the use of increasingly assertive stewardship tools and activities, including reducing or exiting an investment.
ESG	Short for Environmental, Social and Governance – is a set of standards measuring a business's impact on society, the environment, and the transparency and accountability of their governance framework. 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.

Financed Emissions	The emissions associated with Rothesay's investments, in line with the GHG Protocol Scope 3 Category 15 definition.
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.
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's projected greenhouse gas emissions against a specific carbon budget and calculates an estimated overshoot or undershoot. This overshoot or undershoot is expressed in °C.
Infrastructure	Investments in infrastructure such as water, energy and transportation.
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 the 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).
Own risk and solvency assessment (ORSA)	An assessment to the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise Rothesay's business plans.
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.
Policyholder	Rothesay generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by Rothesay regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
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 tCO2e 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 tCO2e annually. Indirect emissions largely associated with the purchase of electricity by the entity in question 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 (for example the Emissions Intensity of the local electricity grid) - or Market based - operational emissions using actual energy consumption of the entity (for example giving credit for renewable energy or green electricity tariffs sourced by the company).
Scope 3 Emissions	Measured in tCO2e 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 and 2 emissions of other entities.

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 are 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.
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 Plan	A plan that sets out an company's approach for how it will align 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.

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.
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.
FRC	Financial Reporting Council – a non-departmental public body that is responsible for the regulation of auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.
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.
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.
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 organizations 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.

Disclaimer

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