Rothesay

STEWARDSHIP REPORT 2022

Contents

Introduction

Rothesay is one of the UK's largest specialist pensions insurers, purpose-built to protect pension schemes. Our singular focus is to secure pension annuities for the future, providing certainty as well as genuine service excellence for all our policyholders. This also removes pension risk from the balance sheets of the corporate sponsors of our pension scheme customers, supporting more stable returns for them. Due to the nature of the pension liabilities 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.

Our careful approach to investment and prudent underwriting means we are trusted by the pension schemes of some of the UK's best-known companies to provide pension solutions, including Asda, British Airways, Cadbury, the Civil Aviation Authority, the Co-operative Bank, National Grid, Morrisons and Telent.

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

We currently manage over £47bn in assets, secure the pensions of over 825,000 people, and pay out, on average, over £200m in pension payments each month. We are securing the future for every one of our clients and policyholders and providing value to our shareholders over the long term.

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 secure and improve the quality life for older people in need in the UK.

Stewardship is defined by the Financial Reporting Council (FRC) 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*'. Given our purpose to secure the futures of our policyholders, our risk assessed, outcome driven approach as outlined in this document is strongly aligned with this understanding of stewardship. This document is structured to align with the twelve principles detailed in The UK Stewardship Code 2020. All activities and data presented in this report refer to 2022, unless stated otherwise.

Message from the CEO

This is our second Stewardship Report, covering activities carried out in the year ending 31st December 2022,. 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 Environment, Social and Governance (ESG) risks in our strategy and decision making. I am proud that our approach to the management of these risks and broader considerations allows us to not only achieve our primary goal of providing pension security to our policyholders, but also provide wider benefits to our stakeholders, the environment and society.

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

Our approach to stewardship continues to evolve. In 2022, this included a particular focus on articulating our broader ESG considerations following feedback from wider stakeholders on this area. 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 2023 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 one of the UK's largest specialist pensions insurers, our singular purpose is to secure pension annuities for the future, providing certainty as well as genuine service excellence for all our policyholders. We have always recognised the close link between sustainability and ESG risks and more resilient long-term performance. Embedding ESG principles enables us to deliver better outcomes for our policyholders, our people and our shareholders.

Rothesay's commitment to the highest standards of integrity, transparency and accountability is reflected in our cultural values, set out below and which are internally available on Rothesay's intranet along with the way in which those values translate into performance, behaviours and our everyday decisions and interactions:

1. **Original & Creative:** We are always looking for new ways to create 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 policyholders is paramount and it guides us in all aspects of our business. For our work culture, we believe in taking personal ownership of the success of Rothesay, rewarding 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 customers

As a specialist pension insurance company, we are engaged by company pension fund trustees seeking to provide security for their defined benefit policyholders by transferring the annuities to pension risk management specialists, whilst also removing a potentially volatile liability from the company balance sheet.

As a business-to-business operator, with limited retail presence, our primary relationship is with the trustee in the first instance, and on an ongoing basis with individual policyholders through our administration of their pension benefits. Our clients' needs are as follows:

- Protecting policyholder security, through effective management across all risks. This includes responsible stewardship of the investments supporting the pensions.
- Delivering excellent customer service wherein timely payment of pensions is paramount.

These customer priorities inform all our actions, from our business model and investment strategy to the focus on service delivery that we implement through our pension administrators.

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 pension fund (or scheme) trustees and members through our meticulous underwriting and due diligence. We model the benefits of policyholders at an individual level and project these benefits to maturity. This means that we can accurately estimate the cost of providing the insured benefits and holding the necessary risk capital. We scrutinise all new business to minimise risk while aiming to achieve returns for our investors that are sustainable. Specifically, the company is managed over the long term with the goal of releasing sufficient capital each year, as policies run off, to achieve returns for investors and to be able to support the new business taken on.

Hedge the risks

We carefully assess all transactions before completion and put in place arrangements to match the liabilities we will take on with appropriate assets. This gives certainty to 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 ESG objectives, and (iii) which provide an appropriate risk-adjusted return. To achieve this, we invest in investment grade bonds and loans. Our investment portfolio is rated on average as AA and is made up of three diverse categories:

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

To date this strategy has supported us in maintaining a stable portfolio that has avoided losses due to default, in building a strong capital surplus and in providing security to our policyholders and bondholders as 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 Willis Towers Watson (WTW), Mercer and Capita Employee Solutions. 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 excellent customer service to our policyholders.

Our Investment Beliefs

Our investment beliefs comprise the priority factors that we consider to be fundamental in delivering we desire from the investments we make. Our in-house team is responsible for the management of Rothesay's asset portfolio (£47bn at year end 2022). Assets are sought which match our liability cash flows and provide an appropriate risk-adjusted return, as well as being in line with our Responsible Investment Policy. Rothesay operates a prudent investment strategy that seeks to diversify exposure and actively manages risk. We are constantly looking for new ways to reduce risk and achieve the dependable returns that create real security for people's pensions in the future. This is encapsulated 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 permanent nature of the policyholder liabilities to reduce risk exposure and to take advantage of less liquid assets that offer higher returns than those exhibited by bonds that can be made readily available for sale; and
- **Knowing our borrowers:** To ensure that the investment process reflects Rothesay's governance principles and considers factors that are harder to quantify, such as ESG and reputational risks.

We believe that the effective identification and management of ESG 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

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.

OUR INVESTMENTS (continued)

2025 targets

- 20% reduction in publicly traded corporate debt portfolio 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.

Engagement

- Engage with at least 20 issuers contributing 65% of our Carbon Intensity (CI) 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 out lending to sectors which support a low carbon economy.

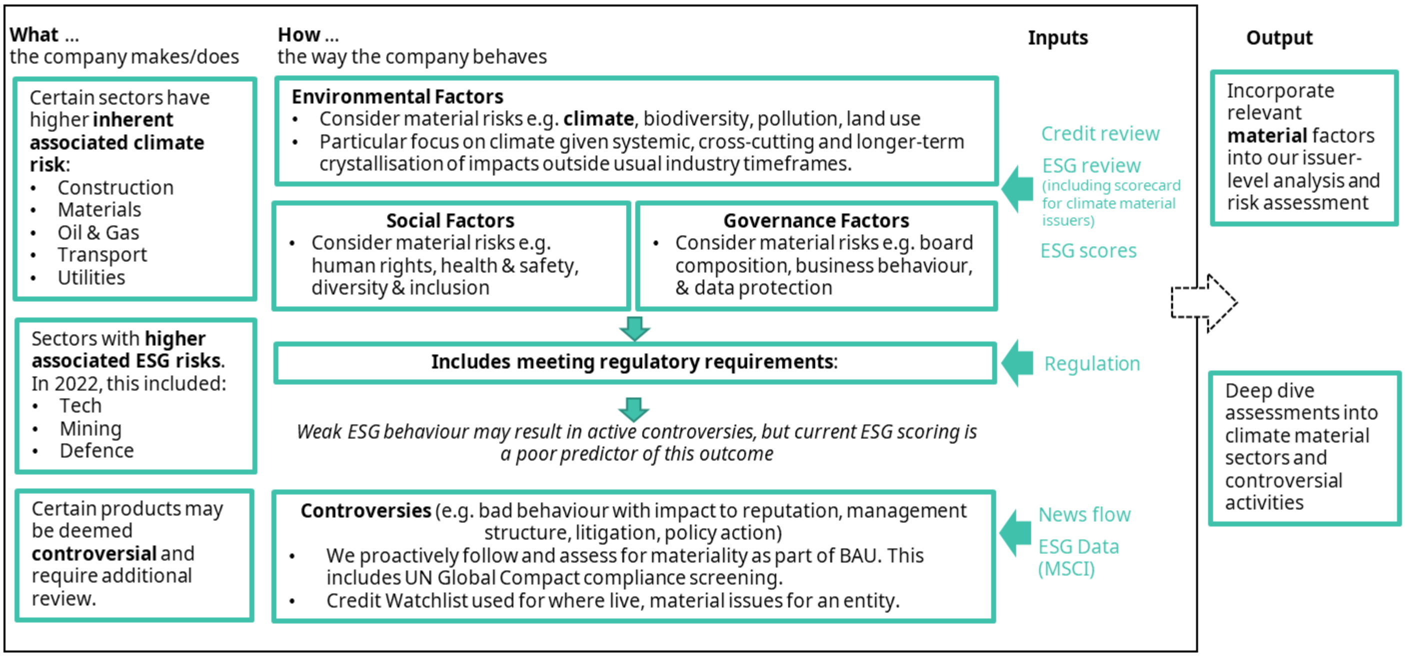
Formalising Our ESG Analysis Approach

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 ESG risks and opportunities.

During 2022 we expanded and formalised our ESG risk assessment framework. Our ESG analysis considers both the 'what' and the 'how' of company behaviour, to reflect the range of ways in which ESG risks and opportunities may arise. This utilises several third-party data inputs. In 2022, we introduced controversial activity screening and UN Global Compact compliance screening.1 This activity led us to introduce a controversial weapons exclusion. This framework is explained in greater detail in Principle VII and XI. These actions reflected feedback from pensions consultants, as well as recognition that these screens were becoming more widespread amongst pension fund trustees. Whilst weak ESG behaviour may result in active controversies, current ESG scoring remains a poor predictor of outcomes. Due to this, whilst they can be an interesting data point, they are not used as a standalone decision-making metric. Our approach to ESG integration is described in more detail under Principle VII.

[1] The UN Global Compact is a principle-based sustainable framework for businesses, stating ten principles of best practice in the areas of human rights, labor, the environment and anti-corruption. More details can be found here: https://unglobalcompact.org/.

ESG 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 preserving sustainable benefits and stability for the wider economy. As noted in our annual report, at the end of 2022 Rothesay had a solvency capital requirement coverage of 258%, reinvested profits of £1,020m and a credit rating that had been upgraded by Moody's during the year from A3 to an A2 rating (Fitch ratings remained at A+). We were also re-accredited with the Gold Standard by the Pensions Administration Standards Association.

From a stewardship perspective, we have undertaken numerous actions during 2022 to ensure that our approach to stewardship is 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 ESG and climate risk management is essential to meet our objectives for 'Policyholder Security' and 'Balance sheet stability'. Our investment portfolio's carbon intensity is 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 monthly basis, we report progress against a wide range of ESG metrics to the Executive Risk Committee (ERC) including issuers with a material climate score, UN Global Compact status and new ESG opportunity financing. We also verify compliance with our portfolio exclusions. Information on these data points is outlined in more detail in Principle VI.
  - Operation outside the target range was escalated for discussion with the executive team during 2022, as the increase in market interest rates altered the relative valuation (and hence market value weighted average carbon intensity) of certain asset classes, altering our portfolio CI.

- We also discussed the extent to which ensuring compliance with a target range allows for further, desirable investment in high emitting entities seeking to fund decarbonisation. As outlined in Principle VII below, Rothesay requires 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 a review of carbon intensity performance and drivers at its annual strategy day, alongside plans for ongoing management of emissions (noted in Principle II).
- **Effectiveness**: High executive level focus and regular internal reporting has ensured that climate considerations are embedded within all trading decisions. 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. This is made possible because climate data, at the level of individual issuers and securities, is available to trading teams in the same system they use to check yields and credit ratings. We have also sought more timely updates on this data, and during 2022 we contracted a new emissions data supplier to meet this need.

- In line with our 'Value-driven' investment principle we continue to monitor developments in quantitative methods to assess ESG 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, we created and expanded the ESG risk assessment framework to ensure we captured and had considered all material elements of ESG risk, in part driven by customer feedback.
  - We expanded our sector reviews beyond climate material sectors to capture thematic reviews of sectors with other elevated ESG risks. In 2022, this included tech, mining, and defence. More information on these reviews, and outcomes, can be found in Principle VII.
  - In addition to our CI targets, during 2022 we also worked on developing Financed Emissions and Implied Temperature Rise metrics. Progress on these metrics was published in our 2022 Climate Report. More information on how we have ensured new metrics are presented in a balanced manner can be found in Principle V.
  - **Effectiveness**: We judge our progress here to be effective, but as customer needs evolve and ESG measurement generally becomes more sophisticated, Rothesay will ensure to implement improvements. We continue to monitor customer 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 investigating new frameworks, such as that established by the Taskforce for Nature-related Financial Disclosure, in a full and timely manner.

- In line with our 'Collaborative & Diverse' cultural pillar, we have taken several steps throughout the year to ensure that all colleagues feel accepted and have equal opportunities to thrive.
  - Actions taken to support this include a data gathering initiative led by our CFO. More information on this process and other Diversity and Inclusivity projects that ran throughout the year can be found in Principle II.

- **Effectiveness**: Outcomes of our employee engagement survey demonstrate high levels of agreement that we are a firm that supports diversity. Our employee survey has evidenced effective progress, seen in an increase in employees agreeing that Rothesay has a work environment that is accepting of diverse backgrounds and ways of thinking. However, this is a continuous process and we continue to enhance the executive level focus on this topic to support further positive developments.

- In line with our 'knowing our borrowers' principles, we continue to deliver demonstrably excellent customer service, focused on real care in every detail.
  - In 2022, we restarted our "small pots" initiative under which pensioners with relatively small annuities (benefit value of less than £10,000) are offered a one-off opportunity to take a lump sum payment.
  - Our complaint levels continue to be low with just 1.37 complaints received per 1,000 policyholders (2021: 1.40 complaints per 1,000).
  - Introduced the SignVideo service for all our deaf or hard of hearing customers.
  - Supported vulnerable customers including through actively engaging with the Association of British Insurers (ABI) as a member of their Vulnerable Customers Working Group.
  - **Effectiveness:** We are proud of our performance and continue to develop our approach to go 'above and beyond' in customer service by enhancing our policyholder interactions, including via the implementation of the Consumer Duty legislation and plans to introduce customer listening groups to get direct feedback. The elevation of the Customer Conduct Committee to become a Board level committee. as noted in Principle II, demonstrates this increasing priority we attach to this objective.

Evidencing Strong Progress on Our Targets

- Maintained CarbonNeutral® company certification
- Ongoing partnership with Climeworks to permanently offset our own operations emissions for rest of this decade from 2025.
- Strong progress on portfolio carbon intensity reduction targets
- Portfolio temperature alignment of 2.7°C

Portfolio Target	YoY Annual reduction (%)	Change vs Base Year (%)
20% reduction in the carbon intensity of our portfolio by 2025	-7%	-13%
20% reduction in the carbon intensity of our NZAOA aligned sub-portfolio by 2025	-10%	-26%
1.5°C portfolio temperature alignment[2]	-4%	-4%

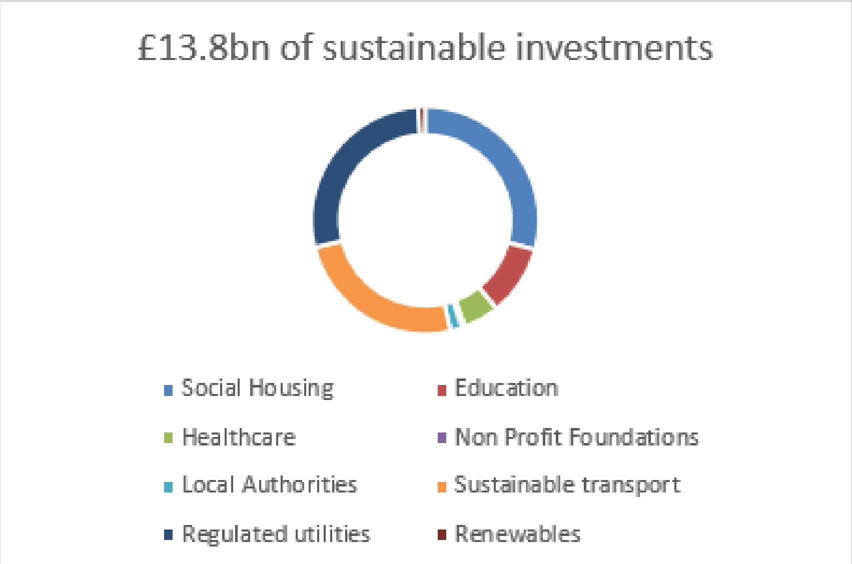
[2] Using data provider MSCI, we currently assess the temperature alignment score of our liquid corporate credit sub-portfolio (where data is most widely available). Our approach will mature as metric evolves and data availability improves.

Case Study: Investing in Sustainable Opportunities Performance

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.

To support this, Rothesay has invested £13.8bn in opportunities deemed to be sustainable investments. We consider sustainable investments to be investments in companies and sectors which can generate real social value, 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



Assessing our effectiveness through direct feedback from clients

As we have previously noted, our customers include our individual policyholders, and the pension fund trustees that represent their interests during a pension risk transfer. Our goal is to meet their needs for pension security and service excellence.

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 2022, 95% of customers rated our service as either good or excellent, with 83.4% rating us as excellent.

Service excellence

Service quality (APM) Measures the number of policyholders who rate our service 'good' or 'excellent'	2021	2022
	94%	**95%**

We have service level agreements in place with our Third-Party Administrators (TPA's) 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 Conduct Committee receives monthly reports tracking TPA performance against all of the above measures, with the data distributed for discussion at the Board level Customer Conduct Committee.

Case Study - Supporting Vulnerable Customers

We are proud of the fact that all of our policyholders are treated as individuals and have strong governance in place to help ensure we follow best practice in this area. We are actively engaged with the Association of British Insurers (ABI) and are a member of the Vulnerable Customers Working Group.

We have continued to develop our vulnerable customers model, working closely with both the Alzheimer's Society and Cruse Bereavement Support. The Alzheimer's Society's Dementia Friends programme is an initiative intended to change people's perception of dementia and in 2022 the Society provided a Dementia Friends session to our people. We have also been working with the society on the power of attorney process.

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

Overall, we are satisfied with the effectiveness of our ability to serve the best interest of our 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.

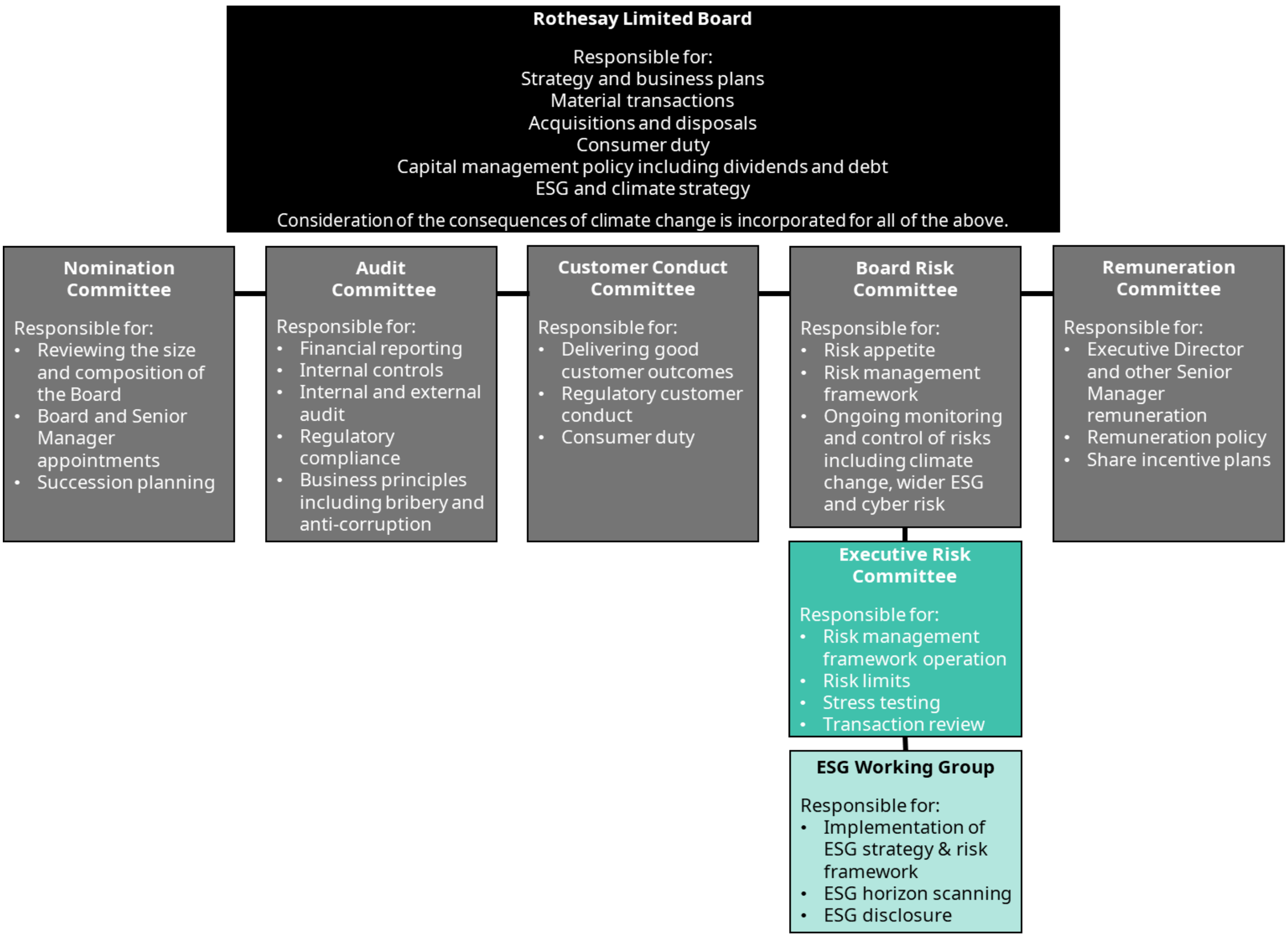
II. Governance, resources and incentives

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 to ensure that the interests of our policyholders are factored into every investment decision. At Rothesay, we structure our governance framework so that our strategy, purpose and values are clearly projected from our Board and are understood and acted on throughout the business. This approach, alongside the processes and controls we have in place, was chosen as it means that we can 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 Board 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 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 externally facilitated review of Board effectiveness was undertaken by Manchester Square Partners. This consisted of face-to-face discussions with each member of the Board using a pre-completed questionnaire to structure discussions. The external facilitator observed the October meetings of the Board, the Audit Committee, and the Board Risk Committee, interviewed a number of senior executives and presented the results at a subsequent Board meeting. In addition, the Chairman meets annually with all Directors individually to discuss their feedback on board performance and their individual contribution.

Outcome: The review concluded that the Board is highly effective and led to a small number of recommendations which will be addressed over 2023.

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 (SMCR). The Policy identifies 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, including Rothesay’s requirements concerning skills, knowledge, and expertise applicable to persons who effectively run the business.

Rothesay’s assessments of individuals’ fitness and propriety reflect the SMCR fit and proper 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 and Regulatory Legal Counsel undertake individual review sessions with each of the Directors.

Appropriate Resourcing of ESG 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 ultimately responsible for the business' approach to stewardship.

Since the presentation of the results of the 2019 PRA climate stress test, the topic of climate change has become a regular item at both Board Risk Committee (BRC) and Board meetings, with the material presented falling into three categories: general information designed to educate and ensure a broad understanding; Rothesay's climate related metrics (for business operations and the investment portfolio); and sector specific information that provides a guide to decision making at a granular asset by asset level. It should be noted that all materials taken to the Board, regardless of subject, will have been composed with due consideration given to Rothesay's ESG related policies, for example, assessment of alignment with our Responsible Investment policy.

Case Study - Items taken to Board in 2022

The table below summarises some of the climate and ESG related items that were taken to the Board for discussion or approval in 2022:

Key Discussions	Areas covered/approvals
Responsible Investment Policy	• The implementation of Rothesay's ESG risk management framework. • The role of issuer engagement in effective climate risk management. • **Approval**: Decision to not support the financing of any new thermal coal activity. • **Approval**: The publication of Rothesay's Responsible Investment policy.
ESG Disclosure	• Overview of the ESG disclosure landscape. • Timeline for future climate and ESG related disclosure requirements.
ESG Strategy Session	• Update on Rothesay's climate metrics and progress against targets. • Comparison of metrics used to assess climate risk across the market. • The role of transition finance in supporting a net-zero strategy.
ESG Report	• Outcomes from COP26. • Update on approach to climate scenario analysis. • **Approval**: The publication of Rothesay's 2022 report.
ESG Considerations on Liability Deals	• Framework for ESG considerations for all liability transactions. • The impact of climate change on longevity. • Developments in carbon accounting on insured emissions.

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 ESG issues (including climate change) and these considerations are as important as other traditional credit matters.

- A 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.

Outside of trade decisions and monitoring the above key performance measures, the executive team discusses strategic elements of ESG risk management, including topics such as portfolio targets, exclusions, portfolio strategy, evolving regulations and disclosure requirements, and developments in client and stakeholder expectations.

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, credit and compliance functions. 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.

ESG Working Group

Day-to-day responsibility for the implementation of Rothesay's climate change risk has been delegated to the ESG Working Group (EWG), a sub-committee of the Executive Risk Committee. In line with Rothesay's philosophy of ensuring that ESG considerations are not confined to one team, and that ESG is fully embedded within the business, the EWG draws membership from across the business and is chaired by 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. In 2022 he was a member of the UK's Productive Finance Working Group sponsored by the Bank of England and H.M. Treasury.

The EWG discusses developments each week, meets formally once a month and is the forum at which all climate related work is first discussed. Duties and responsibilities of the EWG include:

- Supporting the implementation of the climate risk management framework plan.
- Acting as an internal knowledge centre on the financial implications of climate and ESG, including monitoring of emerging risks and opportunities.
- Monitoring the changing regulatory and disclosure landscape across all relevant jurisdictions, in conjunction with the representatives from Legal and Compliance.
- Supporting the wider sustainability of Rothesay and its employees, including co-ordination of training and promotion of sustainability-linked initiatives.
- Reviewing and monitoring ways to reduce our exposure to potential and emerging climate and ESG issues.
- Supporting the development of Rothesay's approach to public disclosures and communications relating to climate, including putting forward individuals to represent Rothesay at the CFRF, the ABI and all levels of NZAOA.
- Ensuring ESG initiatives are appropriately resourced.

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

The EWG has developed a few sub-groups, comprising members of the ESG team, and other business experts. The purpose of these sub-groups is to help 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.

ESG Team

During 2022, we enhanced our climate governance and management, including the creation of a dedicated ESG team managed by our Head of ESG and Liquid Credit Risk, who reports into the Chief Risk Officer. This team acts as the central hub supporting the coordination of company-wide activity related to ESG, with our analysts advising on ESG strategy and frameworks, managing ESG disclosures and monitoring relevant channels for evolving requirements and best practice. They also provide input to trade decisions and the investment committee memorandum, advising on any material ESG considerations. This ensures stewardship principles are widely considered and consistently applied for new investments. The three analysts within this team have multiple years ESG experience, on top of wider experience in credit, risk management and consultancy, as well as relevant professional qualifications such as the CFA ESG certification.

Holly Cook

Head of ESG and Liquid Credit Risk

Holly Cook is Rothesay's Head of ESG 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 ESG, 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.

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 ESG 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 ESG risk within our investment portfolio.

Training

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

As outlined above, ESG is included as a regular item within Board meetings to provide updates on material elements and educate 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 ESG training covering Rothesay's ESG strategy including our responsible investment approach, our climate commitments, metrics and our progress against targets.
- Climate training for all new joiners/graduates.
- Team specific ESG training (ad hoc) provided by the ESG Team
- ESG-linked training including under our professional qualification offering (e.g. CFAUK 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, considering future resourcing requirements and training opportunities. During 2023, we will carry out a review of our ESG Governance framework to make sure that it is still suitable for our stewardship requirements.

Promoting Diversity and Inclusion

As a founder-led business, Rothesay has been committed to creating a culture that actively values difference from day one. Our policies are designed to ensure that our people are not to be disadvantaged in any way as a result of their age, race, gender, disability, religion or belief, sexual orientation, socio-economic background, gender reassignment, marriage and civil partnership or pregnancy and maternity. We recognise that people from different backgrounds and experiences can bring valuable insights to the workplace and enhance the way we work.

In the 2022 employee engagement survey, 82% of our employees agreed or strongly agreed with the statement "My co-workers respect my thoughts and feelings" (2021: 85%) and 79% agreed with the statement "We have a work environment that is accepting of diverse backgrounds and ways of thinking (2021: 73%).

In 2022, the CFO led lunchtime sessions focused on trans inclusion, neurodiversity, and socio-demographic background as part of our diversity and inclusion forum. We continue to look at ways of identifying a more diverse range of talent for the long term. We believe in taking practical steps to drive this outcome, and to telegraph our commitment to supporting all our colleagues. During 2022 we once again participated in the #10,000BlackInterns programme.

We offer training and support to new parents and their managers and all employees taking extended parental leave are offered one-to-one coaching to support their return to work.

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.

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 ESG Working Group 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 EWG is led by a member 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 ESG 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 EWG 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 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 EWG, and the process for escalation. While the formal executive committee reporting line is currently to the ERC, EWG 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 - EWG members and climate data governance

During 2022 we formalised our approach to governance for climate data estimates. Estimate methodologies are proposed and approved in the first instance by a team from EWG comprising our Head of Product Control, Head of ESG, Head of Investments strategy, alongside analysts from the ESG team and the relevant business analyst who managed the particular investments under consideration.

- The ESG team bring expertise on carbon accounting principles.
- Product control share operational best practice for issuer driven data approvals.
- The Head of Investment Strategy and the business analysts ensure the emissions profile of the investment (and our attribution factor) is correctly considered

The benefits are multiple, building relevant expertise across the business team members and ensuring estimates are appropriate. All estimate methodologies and outcomes are subsequently reviewed for consistency and approved by EWG.

Case Study - EWG members and exclusion for controversial weapons

During 2022 our review of the defence sector included key EWG members including the ESG team, Head of Investment strategy, plus representatives from the liquid trading and credit risk teams, who performed the review. This review reflected feedback from pension consultancies (tabled by the business development representative on EWG) that our stakeholders were seeking broader ESG risk assessments.

The EWG agreed a formal recommendation for the exclusion, including the type of products and the nature of involvement. This was escalated to the CRO and the Executive Risk Committee to consider the proposal and the business ramifications. With ERC support the decision was, in light of the strategic nature of this positioning, ultimately ratified by the Board Risk Committee.

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 Application to Stewardship

Rothesay has adopted a 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 the following:

"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 in the Group's business model, 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 customers 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 operates a business model that includes 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 receipt of confidential information held because of Rothesay's liabilities business:

- The compliance department maintains a list of entities (the restricted list) in relation to which we consider we have material non-public information (MNPI) with listed sponsors. Generally, where we consider we have MNPI it is as a result of our liability dealings with corporate pension schemes or investment activities including market soundings on new issues.
- Prohibition of trading in securities of issuers who are on our restricted list.
- Approval required prior to trading some 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 CRO), and the Business Development Team (who report to the 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 Compliance prepares an annual conflicts of interest report to the Business Controls Committee. In addition to metrics such as conflicts self-reported by employees, the report includes specific examples of conflicts that have arisen. The Executive Risk Committee, Business Controls Committee and Audit Committee are responsible for oversight of conflicts of interest.

Case Study - Examples of Controls to Manage 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.

Rothesay's conflicts list sets thresholds for escalation of proposed large positions in the public securities issued by issuers on the conflicts list. If Rothesay has a has a large investment in debt securities, it could have some influence over strategic decisions taken by the issuer which could impact the decisions that issuer takes in relation to the sponsorship of their DB scheme whilst Rothesay is also simultaneously in discussions with that scheme. As part of Insurance Product Oversight and Governance Policy, Rothesay also clears conflicts against our trading positions prior to accepting new liabilities business.

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 2022 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 2022 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 proposal by an employee for Rothesay to engage with a company connected to them was declined and a proposal by an employee to engage another employee in some private work was also declined.

IV. Promoting well-functioning markets

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

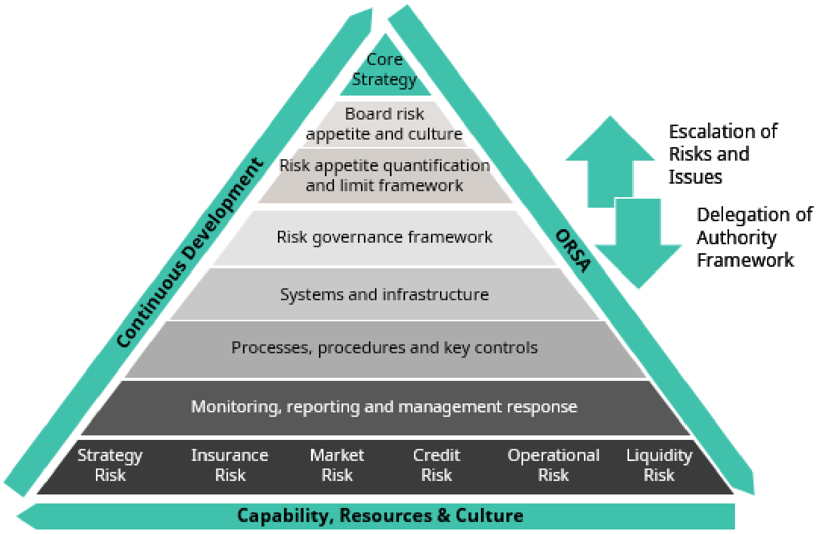
Rothesay's risk management framework

Rothesay has an embedded risk management framework (RMF) that is aligned 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 Chief Executive Officer (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 Chief Risk Officer (CRO), his team and risk management committees. The Chief Compliance Officer and his team report to the CRO. 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, objective 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 customers 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 2022, 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 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.

Ukraine Invasion

Russia's invasion of Ukraine quickly had a systemic effect on the financial markets. The initial market response was that of steeply increased energy prices which in turn stoked inflation to levels unfamiliar for many years and caused central banks to raise interest rates.

This was a challenging environment in which to manage our risks. We first needed to understand which of our borrowers would be negatively affected by higher energy prices and whether the effect would be sufficiently severe as to impair credit quality. The single biggest sector in our portfolio with energy price dependence was the utilities. Our investments are in the larger investment grade entities, which did not suffer the defaults or special administration experienced by their smaller, poorly risk-managed counterparts. Next, we assessed issuers likely to be affected by broader inflation and determined, for example, that significant risks laid with those undertaking development projects in which the future revenues had already been agreed while construction costs would be subject to inflationary pressure. Rothesay has little exposure to such entities and has more limited appetite for construction project finance than for operations that are already operational. Finally, Rothesay's business hedging is undertaken in a world where our capital position and enterprise value are both sensitive to interest rates but in opposite directions, making it impossible to hedge both. After deciding that the geopolitical effects on our business would be transmitted by higher interest rates and inflation, we adjusted our business hedges accordingly.

In a situation like this where several market variables (credit spreads, inflation, interest rates) are moving simultaneously and with large increments 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 this period with full visibility, making small hedge adjustments when necessary, without disturbing the market.

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. 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[3]' in the way in which we manage ESG 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 reduction in the carbon intensity of our corporate issuers by a further 10% after last year's 17% cut. This took place in an environment in which the economy was bouncing back from COVID-19 that tended to increase the emissions which appear in the numerator of Carbon Intensity while the prevalence of inflation tended to boost revenues which appear in the denominator.

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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[3] 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.'

Working with other stakeholders to promote continued improvement

As flagged in our previous report, we have continued our work with Planetrics[4] (a McKinsey & Company solution) to improve the usefulness of their granular, bottom-up climate scenario model. This year we have concentrated on studying possible credit rating migration patterns that vary with the climate scenario under consideration. As a result, the outputs from our modelling this year are more reasonable than those from last year that were tied directly to asset values, moving us closer to decision-useful scenario analysis outputs. This is an ongoing process and a priority focus area for Rothesay.

For the liability side of our business, we have developed scenarios that explore two possible paths for longevity and mortality. The first is set in a hot house world in which expenditure is diverted from health care to counter the effects of climate change and leads to a modest but not insignificant increase in mortality rates by 2050. The second, in which productive investment in the transition to a green economy provides a boost to GDP and combines with widespread adoption of a healthier plant-based diet, leads to mortality rates declining by a comparable amount.

Although our modelling process continues to evolve, early outputs are being used to support our sector deep dives and help inform our investment strategy.

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 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 participated in the Productive Finance Working Group, convened by the Bank of England, HM Treasury and the FCA to overcome barriers to investing in long-term, less liquid assets. Our specific role was in the preparation of its Guide to Liquidity Management published in November 2022.

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.

[4] We Rothesay are solely responsible for scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.

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.

Liability Driven Investment Crisis

In September 2022 the so-called mini budget led to a loss of market confidence and selling of Gilts that caused a rapid rise in long term interest rates. Long-dated index linked Gilts are favoured as hedges by defined benefit pension schemes including many underfunded schemes which had borrowed in the repo market to purchase them. The price falls left the repo loans so under-collateralised that the LDI managers running these positions on behalf of schemes were unable to access sufficient additional collateral in the time available. This resulted in forced unwinds and further selling of Gilts in a spiral that ultimately required the Bank of England to step in as the buyer of last resort.

Rothesay is fully funded and does not need to borrow in this way but does hold similar risk positions and received similar collateral calls from our counterparties. We have long understood that, while the Group is not exposed to rapid policyholder transfers, derivatives are a material source of liquidity risk which necessitates our holding a sub-portfolio of liquid instruments eligible as collateral under the credit support annexes of our ISDA agreements for derivatives.

Rothesay treats the management of liquidity risk with the utmost importance. Just as our daily market risk reports allow us to calculate the change in value of all our financial instruments as markets move, so our daily liquidity reports guide us to the corresponding changes in collateral requirements by type of eligible instrument be it cash, Gilts, or corporate bonds. Using these reports in conjunction with scenarios calibrated against previous crises allows us to maintain prudent liquidity buffers to protect against extreme market moves and the risk of having to sell less liquid parts of our portfolio.

Despite the unprecedented moves experienced during the brief LDI crisis, Rothesay not only met all its collateral calls but maintained its liquidity buffers within its prudent limits throughout.

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 Risk Committee (BRC) or Board are reviewed 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 our 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 Company Secretariat (CoSec). This outlines when each policy was last approved and the deadline for the next review (usually annual).
- Before each round of Committee and Board 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.
- Immaterial amendments, such as minor language changes, are approved by the relevant Committee / Board Chair. Substantive amendments must be approved by the relevant Committee / Board.
- Where the need for a new policy is identified, it will be added to the policy log.

During 2022, we undertook a review of our Risk Management Framework (RMF), Board Risk Appetite Statement, and Investment and Credit Policy, to document enhancements in managing ESG risk. The outcome of this review was that our Board Risk Appetite and RMF documents were amended to reflect climate and ESG considerations. This included: -

- Noting how ESG risk can affect existing level 1 risk categories, such as credit and market risk
- Documenting external climate commitments within our strategic risks
- Including specific ESG risk drivers within Rothesay's business model

The Investment & Credit Policy was enhanced to formalise our climate screening process and reflect the role of the Corporate Social Responsibility Policy and Responsible Investment Policy in investment decisions.

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 several public policies that are directly related to our stewardship approach and investment strategy. These are:

- Corporate Social Responsibility (CSR)
- Responsible Investment (includes our position statements)
- Stewardship Policy

Case Study - New Policies in 2022

In 2022 we published our first Stewardship Report, in alignment with the UK Stewardship Code 2020. This will be reviewed and updated annually to include new information on actions taken throughout the year.

Furthermore, as required by the Modern Slavery Act 2015, we annually update and publish a Modern Slavery Statement on our website, this describes 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.

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, including Compliance, 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 ESG strategy and stewardship practices and reporting are reviewed and evaluated by senior colleagues at Rothesay, including the Chief Risk Officer, 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 ESG 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 ESG team 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 EWG.
- **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 ESG data and disclosures. As the result of an internal audit of the adequacy and effectiveness of the controls in place governing the ESG framework, we now produce a detailed methodology document for our climate data, which is reviewed and approved by the CRO and CFO.

Case Study – Continuous improvement of Climate Data Reporting Assurance

In January 2022, findings from an internal audit on our climate data reporting assurance identified several management actions to improve the robustness of our ESG processes. This included formalising the review process over data contained in the ESG report and providing stronger evidence of our verification process.

As a result of this, we initiated a more formal verification and governance framework to support climate data production and internal assurance. Examples of new controls implemented in 2022 included:

- Annual sign-off of our year-end portfolio data by Finance.
    - Finance Committee to approve the approach to creating, verifying, and approving the climate data contained in the ESG report. This includes our verification materiality framework which outlines how we determine where additional checks must be completed and how final datapoints are verified.
- Finance and Audit Committee are responsible for signing off the data contained in the reports, prior to disclosures being shared with the Board for approval.

By implementing these improvements, we have built resilience in our processes and helped ensure that the information we share is fair, balanced, accurate and understandable. As an annual process, we continue to look to develop our approach to support further improvements in our effectiveness.

Strengthening of External Assurance

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

The importance of high quality ESG reporting to ourselves and our stakeholders, led to a decision to seek formal external assurance on our carbon emissions data and methodology for our 2023 ESG reporting cycle. We have taken this approach to ensure that increased focus is placed on our most material ESG metrics. To this end we engaged the services of Grant Thornton.

Ensuring reporting is fair, balanced and understandable

One of the key principles we work to 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 ESG 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 CI 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 ESG reporting is clear and understandable is one of the areas we look to check as part of meetings with consultants post publication.

Case Study - Contextualising Metrics – Temperature Alignment

Our approach to the disclosure of metrics and targets is focused on publishing numbers as completely and transparently as possible. This includes trying to explain drawbacks and unintuitive features of the metrics we use, allowing the reader to better gauge how much importance to attach to each. This ensures we are transparent in our reporting whilst identifying limitations and areas for improvement.

The below extract provides a strong example of this. It is taken from our YE 2021 ESG report (published October 2022) and represents a more detailed review of the temperature alignment across our portfolio, to supplement an overall portfolio implied temperature rise (ITR) value for our corporate sub portfolio (where we had data).

Furthermore, we were at pains to explain that while, superficially, a temperature alignment score would appear to be the best metric for judging alignment with the Paris accord, the subjectivity associated with allocating a carbon budget and with forecasting an issuer's future consumption of that budget means that the single number should be treated with caution.

Extract from Rothesay ESG Report: p.50

It is useful to provide additional information about the origin of this score by subdividing the sub-portfolio in a few different ways. First a breakdown by temperature alignment of issuers shows that around two thirds of the market value is in the vicinity of Paris alignment depending on one's interpretation of "well below 2°C". We also see that almost two thirds of the emissions are produced by just the 8% of the issuers that are less well aligned than 3°C.

Temperature	MV (£bn)	MV %	% Emissions
<1.5°C	**2.0**	**22%**	**2%**
Paris aligned (1.5-2°C)	4.0	45%	11%
2-3°C	2.2	25%	23%
>3°C	0.7	8%	64%

Subdividing by CI confirms the intuition that the issuers with the most intense emissions are also those with the poorest temperature alignment scores.

CI (Scope 1,2&3)	MV (£bn)	MV %	Temperature
<50	**1.9**	**21%**	**1.6**
50-150	2.5	28%	1.6
150-500	2.4	27%	2.5
>500	2.2	24%	3.1

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 trustees of corporate pension schemes (Pension Fund Trustees). Together these classes of policyholder are made up of over 825,000 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 or loans 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 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 beneficiaries

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 not only ensure 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.

Communication to clients about out stewardship activities and outcomes

While for individual policyholders our stewardship principles may be a matter of interest, Pension Fund Trustees are often 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 fund trustees typically seek information from us on our ESG risk management approach as part of their process to select an insurance partner. At this stage we engage directly, sharing key elements of our framework, including stewardship, targets and exclusions, and understanding their priorities. This is used to guide enhancements to our ESG framework over time. On an ongoing basis, we report on our ESG investment strategy and risk management processes annually in both our financial statements and dedicated ESG report.

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 ESG 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 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 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.

Case Study - ESG Expectations in Bulk Annuity Process

We believe in the importance of promoting and facilitating industry alignment of ESG expectations in the bulk annuity process. To support this, we have participated this year in sessions organised by A4S (Accounting for Sustainability) at which representatives from insurance company boards have met with pension fund trustees and advisers to try to develop both common practice and guidance to help compare any differences in insurer offerings.

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 trustees), Rothesay responds to surveys from external consultants on our approach to stewardship. Following the publication of our ESG report we directly engaged with several consultants responsible for advising Pension Fund Trustees. Through these actions, we have been able to understand Pension Fund Trustees' 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 Pension Fund Trustees of our policyholders 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 ESG related risks. Where we are involved in pitching to provide insurance for a company's pension scheme, we take the opportunity to understand the ESG 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 2022 was the decision to publish our first public Stewardship Report.

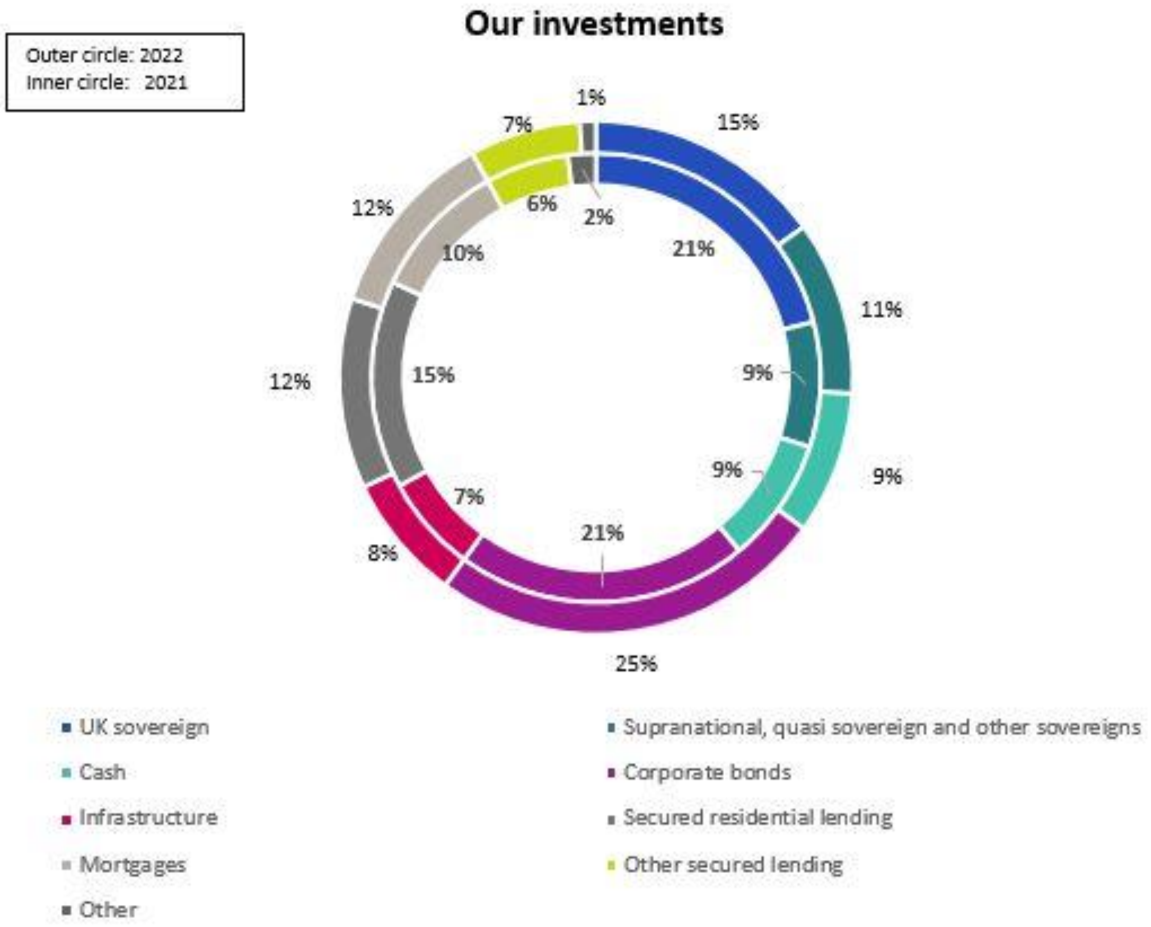
Aligning and Managing our Investment Portfolio in line with Client Needs

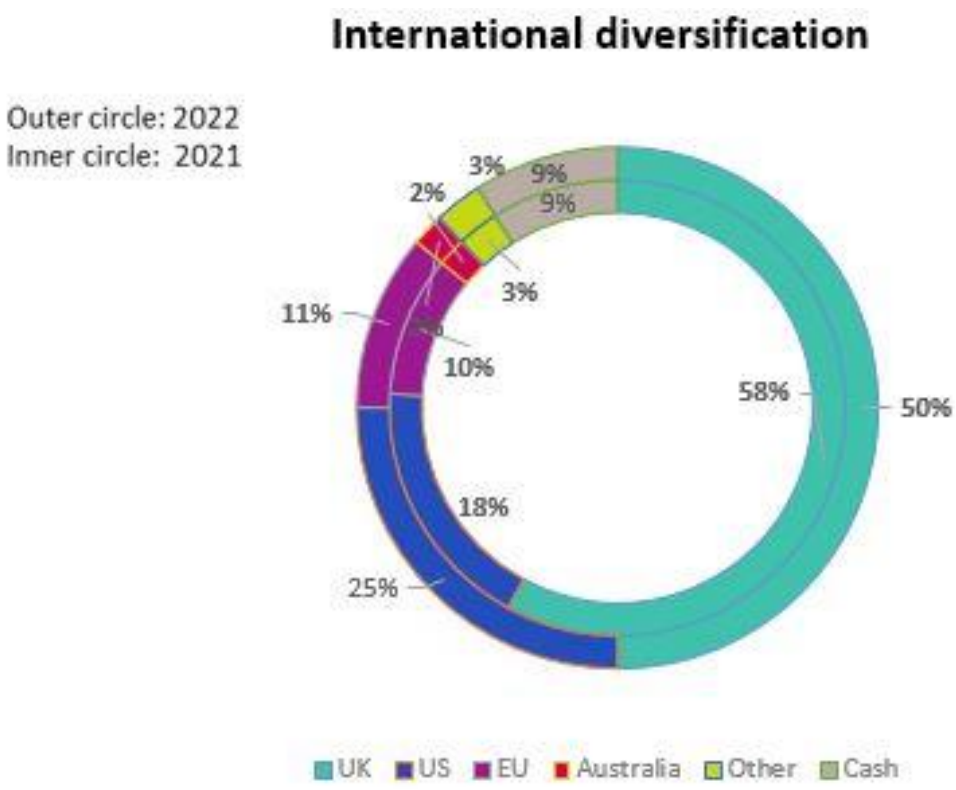
The way in which we build our portfolio is also inherently designed to achieve our purpose of securing pension annuities for the future, providing certainty as well as genuine service excellence for all our policyholders. Due to the nature of the pension liabilities that we protect, we are a low-risk 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 ERMs 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 2022 and 31 December 2021 by sector and geography. Further detail on the management against stewardship priorities is provided in Princple VII.


Our investments
Outer circle: 2022
Inner circle: 2021
1%
15%
7%
6%
2%
12%
10%
21%
11%
12%
15%
9%
9%
9%
7%
21%
8%
25%
UK sovereign
Cash
Infrastructure
Mortgages
Other
Supranational, quasi sovereign and other sovereigns
Corporate bonds
Secured residential lending
Other secured lending


International diversification
Outer circle: 2022
Inner circle: 2021
3%
9%
9%
2%
3%
11%
10%
58%
50%
18%
25%
UK
US
EU
Australia
Other
Cash

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 ESG risk

Our approach to the identification and management of risks during the investment process is guided by our Risk Management Framework where ESG considerations are fully embedded. Rothesay directly manages our investments, allowing for a customised asset-by-asset approach to managing risk. The treatment of ESG risk is based on a materiality approach, with heightened scrutiny triggered as ESG risk increases. Our materiality assessment reflects regulations, stakeholder and customer 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 ESG 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 ESG integration is outlined by our Responsible Investment Policy, which requires the application of clear risk management processes at the point of purchase and throughout the duration of all our investments. This includes, where applicable, any exclusions. To support this, Rothesay has an ESG team, including dedicated ESG analysts, to support the analysis of issues and facilitate the embedding of ESG-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.

Material ESG 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 climate risks. We utilise quantitative indices (e.g., the Carbon Intensity of the portfolio) to manage our overall portfolio, sector, and individual issuer exposures to ESG 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. This is supplemented by ESG sector and thematic deep dives on material topics to understand and manage our exposure, while our ESG data provider supports portfolio screening for exposure to certain controversial products, or UN Global Compact violations.

As part of our business-as-usual credit assessment processes, ESG driven events that may result in a credit rating change are assessed by the relevant analysts to understand any potential impacts. Often a concern will be specific to a particular issuer which means that risk management is done on a case-by-case basis. Our risk management strategy includes consideration of duration and liquidity of positions, especially for climate risk. Where ESG-related issues are current and deemed significantly material, issuers may be added to the Credit Watchlist[5], as per the existing risk framework.

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 are also regularly included in regulatory and legislation expectations, encouraging public reporting and responsible business practices of companies operating in these regions.

Rothesay's investment portfolio is focused on highly rated assets in the UK, US, EU, and Australia. While the EU and UK are generally thought to have made more progress in reducing emissions, we assess numerous investment opportunities in the US and Australia that can contribute to the transition because there is more decarbonisation to be done there. To reflect geographic differences appropriately, we have undertaken comparisons of peers within specific sectors and geographies to understand leaders and laggards not just within sectors globally, but also within operating regions. We have higher expectations for UK and European companies, and as part of our engagement, we expect more advanced transition risk management, with greater investment in green technologies and wider adoption of science-based targets. In contrast, while we accept that US and Australian companies may have made less progress to date, we provide clear guidance on our expectations, and 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, including corporates with operations concentrated in susceptible regions. The exact nature of this risk will vary dependent on specific location of each asset.

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

Case Study - US Rate Reduction Bonds

In 2022, Rothesay assessed an investment opportunity in the US relating to participation in a rate reduction bond with a Utility. Our assessment of this transaction involved the calculation of the issuer's carbon intensity, assessment of the issuer's transition preparedness and commitments, and exposure to physical risk. Physical risk was a particular focus given this specific transaction was seeking to raise adaptation financing to recover costs and protect infrastructure from wildfire damages, without impacting rate affordability for their customers. After completion of due diligence which determined the entity met our expectations for climate risk management, and following Committee approval, we participated in this deal. In contrast, another opportunity in this sector was rejected. The issuer had a high carbon intensity, reflecting a high exposure to fossil fuels, including coal. Their plans to decarbonise and exit coal were not ambitious enough, and we expected their carbon intensity reduction to be below the level we require for high emissions issuers, so we did not proceed. We actively engaged with the CEO to explain the challenge and encourage an acceleration of their transition plans.

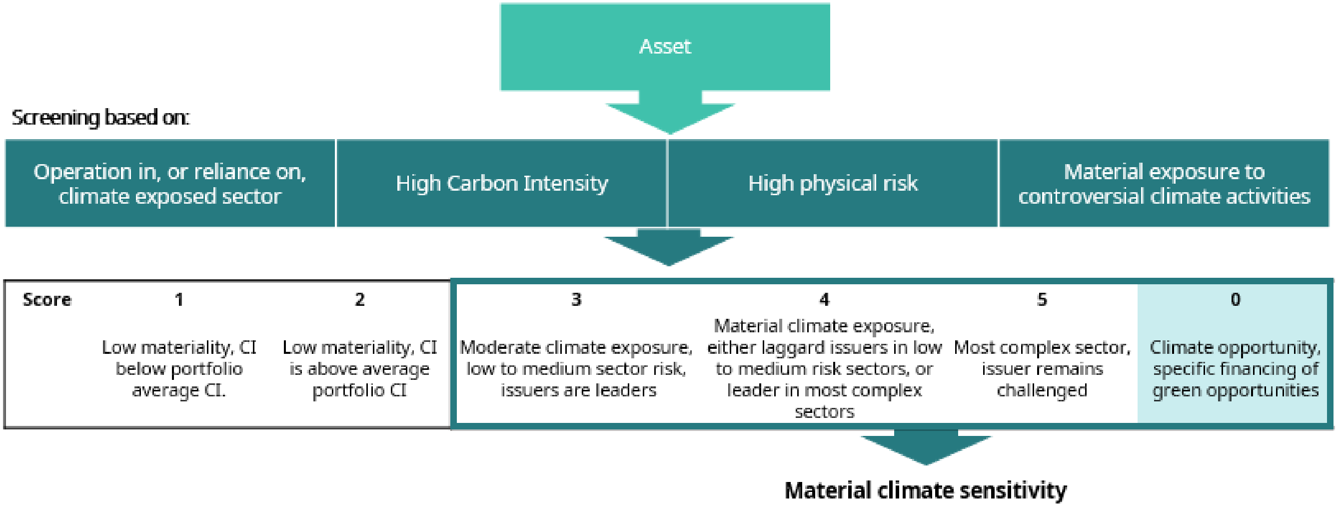
Asset Class Considerations in our stewardship and investment approach

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 ESG 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

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 provides 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:



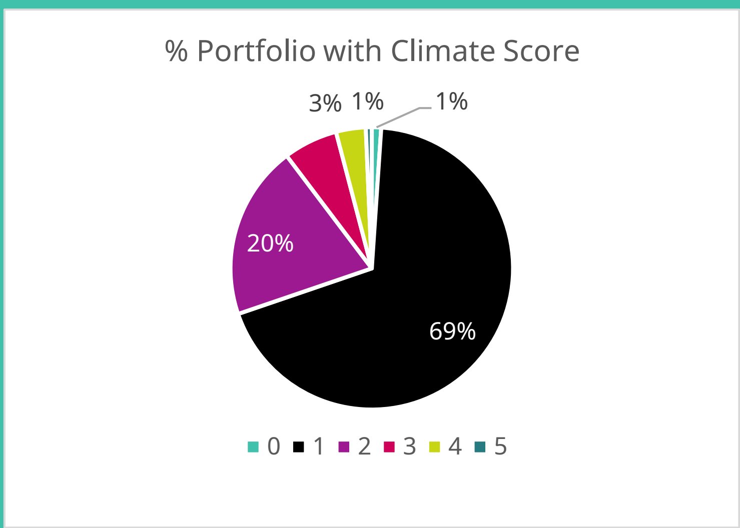
Issuers that do not reach the materiality threshold are scored 1 or 2 based on Carbon Intensity only. Climate Material issuers are ranked between 3 & 5, based on intersection of:

- 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.

Case Study - Material Climate Score Data

Using the outlined framework, at YE 2022, 10% of in-scope portfolio issuers (MV basis) were allocated a material climate score. The majority of these were within 3 scored names which remains aligned with our broader climate strategy to focus our investments on transition-aligned entities.



Broader ESG Deep Dives for Corporates & Infrastructure

In 2022, following the enhancement of our ESG risk framework described in Principle I, we introduced additional ESG deep dives alongside the climate specific analysis we have completed for several years. This year this included tech, mining and defence. The purpose of these deep dives was to identify and assess the level of wider ESG-related risks for the sector and determine whether any of our positions were materially exposed or falling behind sector peers. The outcome of two of these reviews, Defence and Tech, are detailed below.

Case Study - Exposure to Controversial Weapons

After conducting a deep dive into our exposure to defence and weapon activities, we established a Controversial Weapons position within our Responsible Investment policy. This excludes issuers directly involved in the following sub-set of weapons deemed "controversial weapons", in line with the UN convention on certain conventional weapons: a) Cluster weapons, b) Mines and Booby Traps, c) Biological weapons and d) Chemical weapons. To monitor this, we utilise specific screening of our portfolio and any new investments using a third-party service provider to support exclusions in line with our policy.

Case Study - Outcome from Identification of Issuer with Governance Weakness

We conducted a review of our technology sector exposure driven by a high level of tech transition and change risk driven by the pandemic. Issues such as the impact of new regulation and anti-trust are material for this sector and increase uncertainty of performance. The sector faces additional challenges, with examples including complex supply chains, entrepreneurial leadership, and management of data.

This review indicated an issuer with sector lagging governance performance. This entity had high insider control which was deemed to be a material governance concern. We added this issuer to our internal monitoring list, engaged with the issuer as per our engagement first approach but then ultimately reduced our exposure to the position. The issuer subsequently faced multiple credit rating notch downgrades because of aggressive financial policy actions (debt raising for share buy backs and dividends).

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 purpose associated with a project finance asset allows specific assessment of its climate 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 decarbonisation costs and has feasible, credible transition plans to indicate how they align with our climate commitments.

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 more broadly in this asset class we have been heavily involved with the NZAOA initiative to promote disclosure and assessment of sovereign emissions.

Due diligence

Alongside the analysis undertaken by credit and trading, our compliance team conducts “know your customer” due diligence on borrowers new to the firm using a risk-based approach dependent on sector, jurisdiction and profile of the parties.

All due diligence includes the consideration of ESG 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 ESG are currently still in their infancy, with those surrounding climate change being the most developed while those on wider ESG themes are 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 an ESG 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.

Case Study - Early-stage due diligence process

Due diligence undertaken by Compliance is an important control in identifying risks associated with financial crime. Having an open and constructive dialogue between Asset Origination and Compliance helps to avoid unnecessary work being undertaken where it is likely that a transaction will not be proceed due to financial crime risks.

At an early stage, Rothesay's Asset Origination teams will work closely with Compliance to identify if new investment opportunities present issues from a financial crime perspective.

Typical indicators of increased financial crime risk:

- Complex and opaque ownership structure.
- Exposure to certain high-risk countries such as those on a Financial Action Task Force (FATF) grey-list or where reputably 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).
- Media articles indicating historic or current bribery and corruption issues or other similar financial crime issues.

As an example, in 2022, Rothesay conducted early-stage discussions relating to a structured financing transaction whereby Rothesay would indirectly finance the operation of a ship.

The transaction's structure was complex and certain parties to the transaction had been subject to investigations relating to bribery and corruption. Although the accusations were historic, the transaction in Compliance's view posed a high risk of financial crime. To that end Compliance recommended that an Enhanced Due Diligence (EDD) report be commissioned before further work was undertaken. An EDD would provide Rothesay with more granular ownership information (KYC) and potentially more detail on current or historic financial crime investigations and/ or media scrutiny. The results of an EDD alongside Rothesay Compliance's own due diligence would form part of the information provided to Rothesay's Executive Risk Committee (ERC) which is responsible for reviewing, challenging, and approving new transactions.

Rothesay's Asset Origination team decided not to proceed with the transaction based on these findings, concluding that the financial crime risks were not acceptable.

Involving Compliance at an early stage meant that unnecessary work was not undertaken, and that Asset Origination could focus on other opportunities.

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, chaired by the CFO, is responsible for the approval, implementation and monitoring of the Group's 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 ESG risk factors. Regular dialogue is maintained between the vendors and the Group's relevant business areas as part of the ongoing operation.

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 an internal committee, which conducts a formal review of our critical suppliers at least annually. This 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 which include the need to have a Modern Slavery Statement where applicable. We strive to foster long-term relationships with our critical suppliers, and we avoid making demands of our suppliers that might lead to them to unsustainable business behaviour.

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. This document can be found here.

The Solvency II Directive (2009/138/EC) ("Solvency II") includes 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 supplier's emissions and climate targets.

Third Party Administrators (TPAs)

From the point of view of our policyholders, the companies in our supply chain with whom we are most closely entwined are those performing pension administration: Capita, 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.

Principle I and VI describe the daily and monthly processes by which we ensure our TPA's 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 ESG 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. For example, in 2022, we noted that one of our TPAs had their ESG score downgraded due to number of social factors including lagging performance on employee management processes. Given the challenges with the useability of ESG scores, a downgrade does not immediately generate concern, however we used this as a trigger to assess in more detail the driver for the downgrade and any change in our assessment of the TPA's ability to operate in line with our expectations. On this occasion, the challenge was found to relate to a short-term issue where appropriate controls had been introduced so no additional action was needed.

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.

Specific ESG service providers

In pursuit of our duties of stewardship, Rothesay utilises several third-party data sources including Bloomberg, CDP, Planetrics (a subsidiary of McKinsey) and MSCI.

The ESG 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 ESG 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.

Case Study - Changing Climate and ESG data providers to ensure needs are met

With ESG firmly embedded into our risk management framework, climate data is of increased importance as we look to monitor our exposure to related risks and opportunities for stewardship purposes. We noted several issues with the data provided by a couple of our providers, including timeliness of information and usability of systems. Although we engaged with the relevant parties on these issues, we were not able to see reasonable changes in a satisfactory timeframe. Therefore, we conducted a thorough review of the many market offerings to ensure that we had data solutions able to meet our expanding needs for applicable ESG data. This review included a detailed review of data quality, coverage, and timeliness for each considered provider and well as a consideration of the ability for the provider-to-provider broader metrics as our use cases evolve. This process led to us select Bloomberg and MSCI as new sources for our ESG data.

IX. Engagement

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

Rothesay's ESG 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 ESG management. 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 fund trustees, industry groups and regulators and policyholders. While our ESG Engagement Strategy has been formalised to consider portfolio wide objectives, we conduct daily engagements with issuers and stakeholders such as regulators and industry groups to allow us to understand and respond to incoming challenges and opportunities.

Case Study - Engagement with Regulators and Policymakers

We have innumerable interactions throughout the year with both the PRA and Treasury on a broad range of sustainability related activities. This includes ongoing engagement with the UK Government around Net Zero Strategy and implications for our industry, often though industry group discussions. Details of these discussions are inherently non-public given their nature.

Rationale for our Engagement Approach

As mentioned, given the nature of our business, our approach to 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 ESG 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 ESG factors engagement triggers include involvement in controversial activities, deterioration in ESG performance and headline risk.

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

Case Study - Identifying Climate Material Engagement Entities

As outlined above, it is important 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 proportion of our Weighted Average Carbon Intensity. Issuers for priority engagement are identified due to several factors including having a high contribution to the WACI of our corporate portfolio. A Climate Score of 5 signifies a laggard in their sector and/or evidence of backsliding on targets. These criteria ensure our engagement is outcome focused, with each engagement identifying a specific desired action by the issuers (e.g. improved disclosure, commitment to setting/verifying science-based targets).

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. 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 - Underperforming Utility Entity

We engaged with a fossil fuel intensive utility within our portfolio, identified for additional review due to weaker disclosure in comparison to peers and ongoing high fossil fuel exposure. The purpose of the engagement was to gain additional clarity on their strategy to manage low-carbon transition and plans on reduction in fossil fuel exposure. The engagement resulted in better understanding of their management approach to addressable risks and the steps they planned to take to better manage and articulate their approach to these. This increased confidence in our internal assessment of their performance within our climate scorecard. We see engagement as a multi-year process, and will continue to monitor performance, in particular improvements to their disclosure, to ensure we remain comfortable with their approach.

Case Study - Entity with Exposure to Civilian Firearms

Whilst we do not have an exclusion, we monitor our portfolio for exposure to civilian firearms because the activity is commonly viewed as controversial given the societal impact that gun violence has. It is therefore important that any exposure we have is subject to scrutiny. Using our new third-party controversial activity screening provider, we identified an entity with exposure to firearms not previously noted. We contacted the entity to request additional information including confirmation of the exact activity taking place and the level of exposure (%revenue basis) this represented. We received confirmation that the exposure was related to sport-related firearms, which is not in-scope for heightened discussion as part of our investment criteria. This meant no further steps were required, with this outcome noted in the engagement tracker for good order.

Property Portfolio

Within our property asset class, we have continued to engage with Social Housing entities and their regulator to support disclosure on sustainability issues and to better understand specific risks for this sector. The sector has an ambitious programme of fire safety upgrades and property enhancements including those designed to achieve an EPC rating of C by 203., 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 Sector Stakeholder Discussions

Throughout the year, we maintain an ongoing relationship with the UK Social Housing regulator given our substantial investment in this sector. The focus of our conversations includes the scope of the decarbonisation strategy for the sector as well as providing feedback on customer satisfaction / tenant engagement measures announced by the UK government. We have also been heavily involved with issuers in shaping their ESG reports including requests for more specific data and targets, for example encouraging emission reduction targets for properties under management in addition to the organisation's own operations. We are an early adopter and supporter of the ESG Social Housing Working Group.

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 sustainable 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 prevents material change in deployment into 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.

Geographic Considerations in our Engagement Approach

As outlined in Section VII, consideration of the geographies in which we invest is important to our identification and management of ESG risks, and therefore affects our engagement approach. Whilst we apply a consistent view of what is expected behaviour of 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 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 in order 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 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 outputs recorded in our climate scorecard which is a driver for investment appetite.

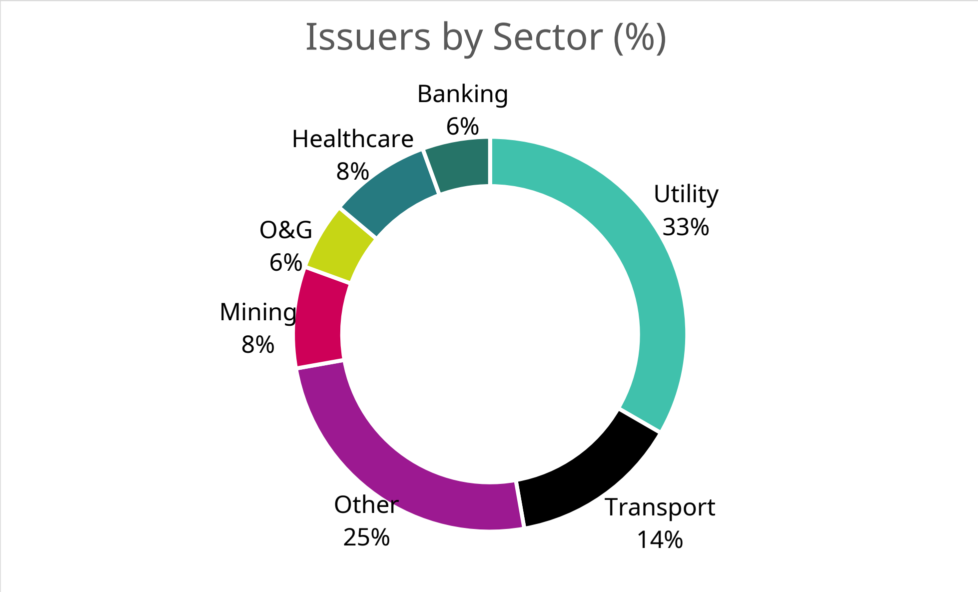
Engagement Progress & Outcomes in 2022

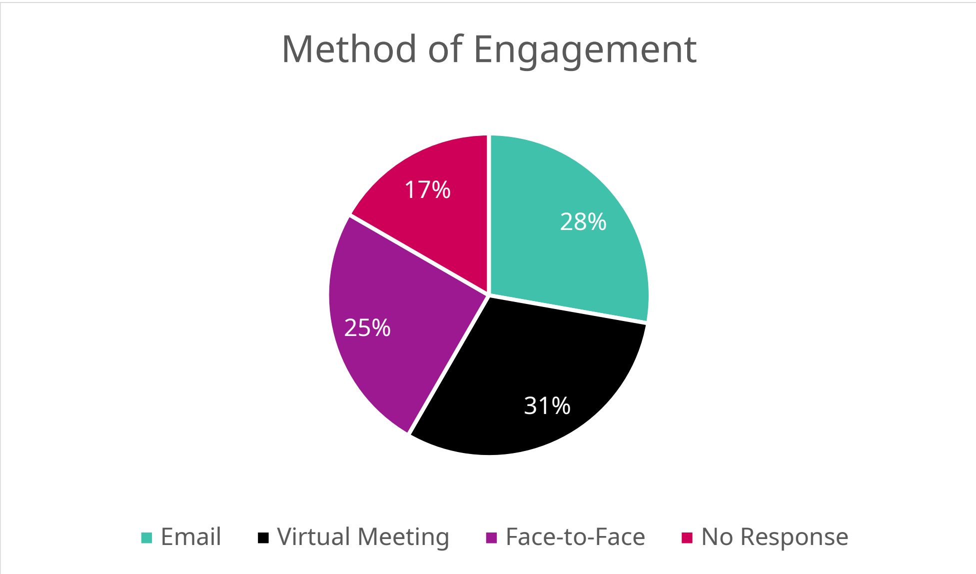
Each engagement is recorded in an ESG engagement tracker. This document records the rationale for engagement, entity type (and, if relevant, sector), method of engagement and outcome of engagement including any escalation requirements. On an annual basis, we report core themes of our engagements and 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.

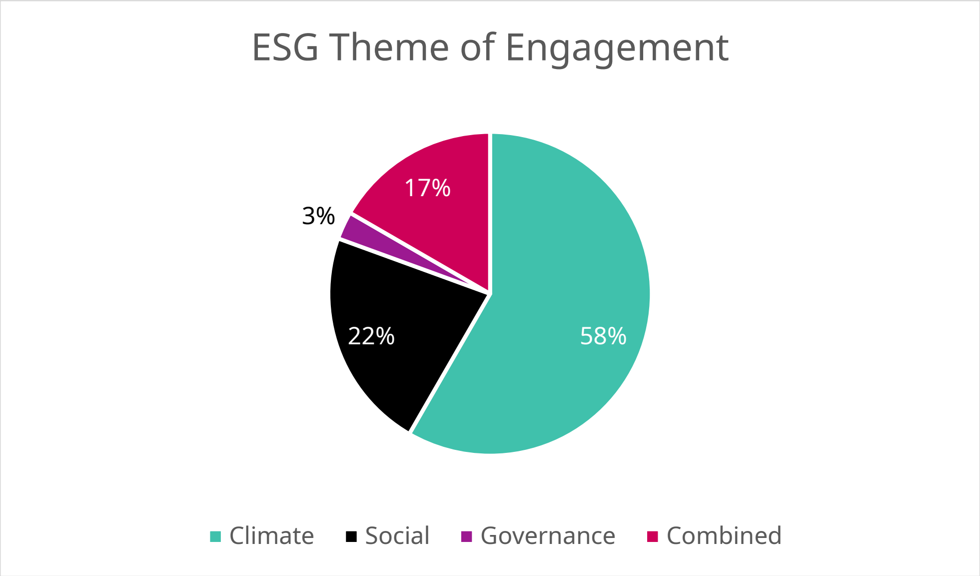
As part of our risk management framework, we regularly engage with issuers within our portfolio on a wide range of topics. In addition to these BAU engagements, during 2022 we recorded 36 specific issuer engagements relating to ESG topics, not including broader policy and regulatory engagement activities which are ongoing throughout the year. These predominately focused on climate interactions to align with our NZAOA commitment to engage with entities having the greatest climate relevance, with 82% (compared to 89% in 2021) of engagements focused on environmental factors. Targeted entities were concentrated within the corporate universe given the particular importance of understanding climate risks in this sub-section of the portfolio. Post Covid, we were able to conduct more of our engagements face-to-face (25%) alongside virtual meetings (31%) which can often promote a more in-depth conversation than via email (28%). The level of individuals with whom we engage has become more senior with 36% (up from 13%) being a team head or senior executive indicating increased executive level engagement with ESG issues. A growing number of engagements were also with specific ESG teams (27%).

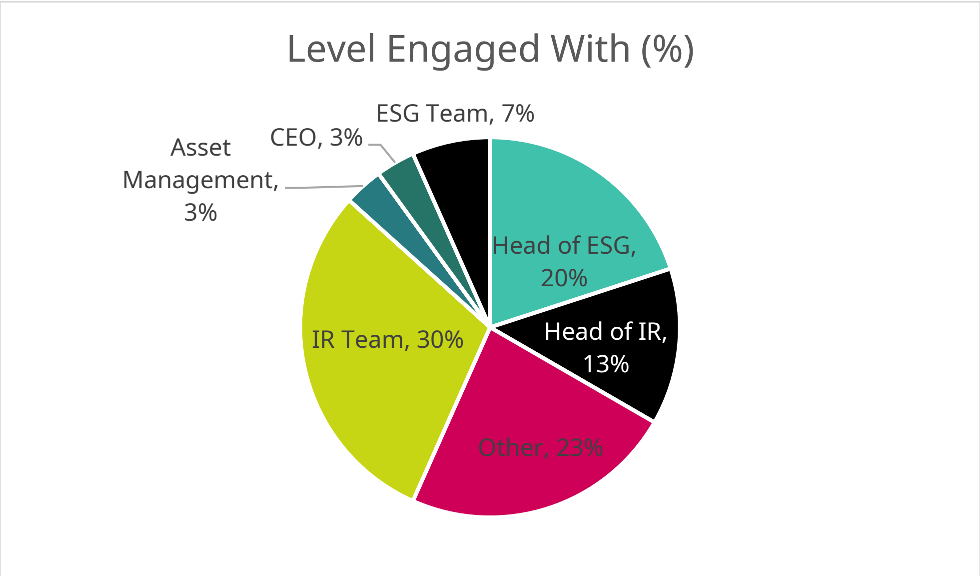
Our engagements received an 83% response rate continuing the high responsiveness to our activities. In many cases, it can be challenging to accurately assess whether a lack of response to our engagement reflects entity views on ESG issues or prioritisation of more material stakeholders. However, post 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 included 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 ESG-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.






ESG Theme of Engagement
17%
3%
22%
58%
Climate
Social
Governance
Combined


Level Engaged With (%)
ESG Team, 7%
CEO, 3%
Asset Management, 3%
Head of ESG, 20%
Head of IR, 13%
IR Team, 30%
Other, 23%

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 sustainability 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.

Case Study - Multi-year collaborative engagement with Healthcare Providers

A Rothesay colleague, representing the UK life insurance sector, was invited to speak at a conference for US non-profit healthcare providers, and to present on ESG disclosure needs from an investor perspective. The goal was to raise issues and share best practice to an audience of company leaders and advisers. The sector is slower in developing climate disclosures, and we are keen to support their development, recognising the sector provides valuable social good, and generally carries low climate risk.

Feedback from the presentation identified that there was increasing appetite for discussion on sustainability issues, with enquiries from several issuers. We therefore organised bilateral conversations with those entities who did not provide detailed reporting on sustainability efforts within their disclosure. As part of this, we gave clear guidance on the data we needed to collect, how these needs may evolve and some examples of potential best practice for them to consider. It is rare to be able to provoke an immediate response, so we were pleased to see that one of these entities recently made sustainability disclosures that addressed the themes we suggested.

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 Climate Financial Risk Forum 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 also able to consider, and where appropriate reflect, industry perspectives and recommendations when developing our own ESG 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 actions that support greater consistency and drive action by issuers. Below we list examples of collaborations within which we believe we have had a significant influence:

Case Study – NZAOA Sovereign Working Group Lead

Whilst we acknowledge that we have limited ability to alter our investment approach to 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. In recognition of this, in 2022, our Head of Investment Strategy became 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 due to be published in 2023. The decision to become a co-lead was driven by acknowledgement of the need to drive action within Sovereign asset class and encourage action.

Case Study – NZAOA Target Setting Protocol Version 3

With multiple employees as active contributors to the Monitoring, Reporting and Verification (MRV) track, we took an active role in the development of the NZAOA's third edition of their Target Setting Protocol. Given our involvement in the reporting, real estate, and scope 3 sub-tracks we contributed to a significant amount of new content. This document is 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 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 the nature and built environment and help society adapt to the impact of global temperature rises.

Rothesay were one of the membership representatives who supported the development of the ABI's Climate Change Roadmap, and we continue to actively engage and collaborate through this Forum. In 2022 this included being a:

- Regular attendee at roundtables including on topics on development of reporting standards, UK Green Taxonomy, climate transition planning and evolving nature strategy.
- Respondent to consultations on UK Green Taxonomy and Climate and Capital Considerations to provide industry feedback to Government initiatives to encourage appropriate outcomes for the sector.
- Participant in pulse surveys to share feedback on ABI's progress against its Roadmap milestones.

XI. Escalation

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 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 and lack of ambitious targets, 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 climate commitments. Examples include a change in fossil fuel usage for a utility 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 engagement and 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 escalations to what is reasonable within each sector and target our engagement to encourage the responses we seek. We provide clarity on potential consequences of 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. It is often challenging to determine whether our activities alone result in a direct outcome or to accurately assess whether the lack of responsiveness to our engagement reflects an entity's own views on ESG issues or its prioritisation of more material stakeholders. In those cases where our engagement elicits no response from the issuer, we are not dissuaded from making further attempts to engage in future years.

Rationale and Objectives for Escalation

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 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 actions such as explicit requests for additional disclosure, inclusion of ESG covenants for bilateral loan positions or ultimately adjusting our holdings.

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

Case Study –Escalation due to Inherited Positions from new pension risk transfers

As a central part of our business, we may acquire assets as part of a new pension risk transfer transaction. We received a number of new risk transfers in 2022. Our underwriting process includes a review of any new assets in respect of their ESG risk alongside their wider credit risks and valuation. It considers the impact on our portfolio carbon intensity, reviews high emissions issuers, and checks alignment with our responsible investment policy. Within the asset portfolio of a recent liability deal in H2 2022, this process identified a name which was misaligned with our controversial weapons policy. This issuer was escalated and identified for priority sale. The exit of the misaligned position was completed swiftly after the transaction closed.

Case Study – Proactive Monitoring of Governance Challenges triggered escalation

The project underlying one of our loans to a component of the UK's critical infrastructure has experienced several delays to its completion targets and has also had to replace one of the key manufacturing contractors. This led to several occasions in 2022 where Rothesay needed to examine whether the forbearance on certain loan terms requested by the borrower would compromise the creditworthiness of our investment. We worked in concert with other lenders to accommodate the delays and changes allowing the project to proceed without loss of value to the lending group. This was in part made possible by the presence of a strong set of covenants that we had negotiated when originating the loan.

Case Study – Outcome from Escalation: Previous non-responsive issuer provides additional disclosure

In 2021, we attempted to engage with an issuer within the utility sector that had more limited disclosure on climate emissions and targets than their peers. After non-response in 2021, we retained the issuer within our priority engagement list as we had not seen a clear improvement in their disclosure. At the start of 2022, we therefore escalated their non-response to relevant stakeholders to indicate the ongoing misalignment of the issuer with our expectations. This escalation ensured issuer engagement was required in 2022, and subsequent engagement led to a detailed response from their investor relations team which increased our confidence in the mechanism the issuer has in place to manage their climate-related risks and transition. We will continue to monitor the issuer's disclosure to ensure they align with our conversation.

Case Study – Thermal Coal as a by-Product of Met Coal

As outlined in our Responsible Investment policy, we will not fund new thermal coal projects, however, we do not exclude metallurgical (met) coal, given its importance in vital industrial processes such as production of steel. This distinction is not always easy to police. In 2022, we noted a company had plans to expand a met coal mine, and we identified the challenge that this new plant would result in thermal coal as a by-product. We therefore needed to discuss whether this new coal development was in breach of our policy and escalated to relevant internal stakeholders.

We investigated further, speaking to external industry experts and reviewing industry guidance. This review confirmed that such activity, by diversified miners with thermal coal as a minor by-product only, is generally not seen as misaligned with “no new thermal coal” policies. Nevertheless, we have now included this area as an engagement topic with entities in the sector should a similar situation arise in future. This should help to ensure we have a holistic view of their activities and can judge ongoing alignment with our climate commitments.

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 them 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 ESG 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 – Property Loan Efficiency Discussion

During pre-trade discussion for a new commercial real estate debt financing, we engaged in detailed discussions around our expectations for a 'best-in-class' new build property. This included sharing our views on emerging best practice, including minimum EPC ratings and use of external building sustainability ratings such as BREEAM and LEED. We also discussed expectations should the borrower want to structure the transaction as a green loan, including requirements for reporting and external verification. Whilst the loan was ultimately not issued as a certified green loan, it was expected (subject to practical completion) to receive an EPC rating of B and be in line with 'Outstanding' BREEAM rating.

Case Study – Green Bond Evaluation

In 2022, we held over £1bn in bonds classified as 'green' or 'sustainable' predominantly in the Utility sector and the Property asset class. 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 green bonds had a defined use of proceeds for energy efficiency programmes in the utility's operation region. In line with the bond documentation, financing programmes include incentives for energy-saving products, energy assessments and educational scheme. As one of our self-imposed responsibilities as a green bond holder, we checked that full allocation to such projects had been completed.

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