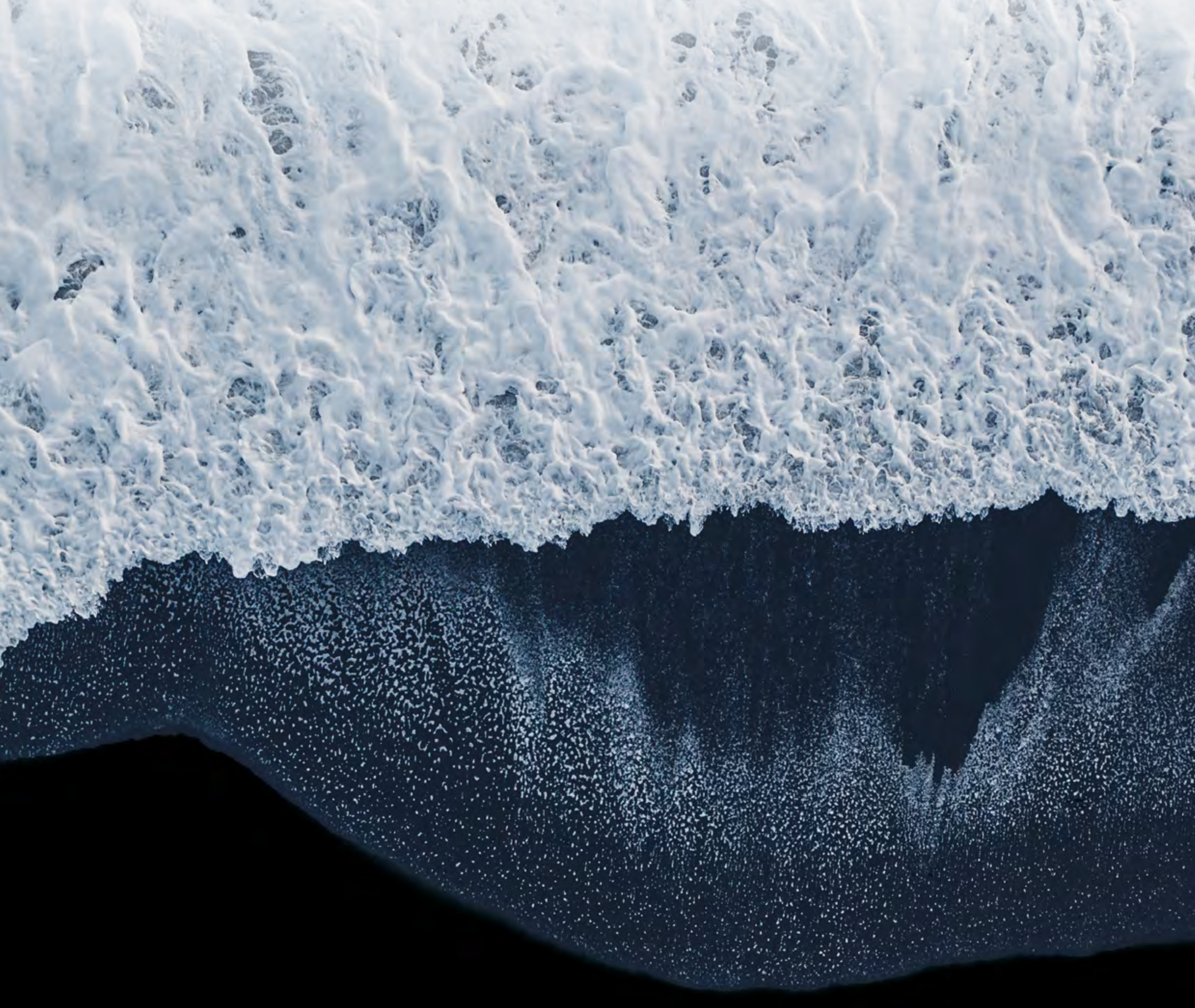
Rothesay

Environmental, Social and Governance report 2020

Our purpose

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

Rothesay refers to Rothesay Limited (formerly Rothesay Holdco UK Limited) and its subsidiaries, together the Group.



About Rothesay

Rothesay is the UK's largest pensions insurance specialist, purpose-built to protect pension schemes and their members' pensions.

With over £60 billion of assets under management, we secure the pensions of over 800,000 people and pay out, on average, more than £230 million in pension payments each month.

Rothesay is dedicated to providing excellence in customer service alongside prudent underwriting, a conservative investment strategy and the careful management of risk. We are trusted by some of the UK's best known companies to provide pension solutions, including the schemes of Allied Domecq, Asda, British Airways, Cadbury's, the Civil Aviation Authority, National Grid, the Post Office, Prudential and telent.

Rothesay has two substantial institutional shareholders, GIC and Massachusetts Mutual Life Insurance Company ("MassMutual"), who provide the company with long-term support for its growth and development. In September 2020, our shareholders increased their investment in Rothesay through a transaction which valued the business at £5.75bn.

This is the first comprehensive report the Group has publicly provided on its Environmental, Social and Governance (ESG) activities and it includes, most prominently, our climate-related financial disclosure in line with the voluntary disclosure recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Further information about Rothesay is available at

rothesay.com

Message from the CEO

Rothesay is dedicated to securing the future for every one of our policyholders. To achieve this, we must be obsessive about managing risk and ensure that we invest in assets that drive predictable, dependable returns over the long term.

This is our first comprehensive Environmental, Social and Governance (ESG) report which incorporates our 2020 TCFD disclosures and provides detail on our social and governance practices. Within it, we are pleased to set out our pathway to achieving net zero across our business by 2050, along with the series of steps we will take, and partners we will work with, to make this pathway a reality.

Gone are the days when it was commonly thought that investing with an eye on the environment, or on social matters, meant accepting lower returns. Now it is the companies which fail to address ESG concerns in their investments that run additional risks of loss. It is therefore vital that we carefully measure and manage the risks associated with ESG (including climate change) in our investment portfolio and that our lending is aligned with businesses that will successfully navigate these risks in the future. We actively seek out future opportunities to help finance reliable renewable energy projects, where this is possible within our regulatory system, and we are always willing to support governments in their efforts to develop low carbon generation and infrastructure. We stand ready to fund projects that aid the transition to a low carbon economy.

We also see it as an important part of our role to help shape industry standards on comprehensive and transparent ESG disclosures. For that reason, in this report, we have sought to lay out in detail our thinking behind the approaches we have taken to understanding our risks and choosing the metrics by which we hope to track progress. We are seeking to be both pragmatic and transparent in our approach, making use of the data and tools that are currently available to us in the knowledge that, while there are shortcomings of each, useful conclusions may still be drawn.

While exerting influence through the activities of our investment portfolio provides the most significant opportunity for Rothesay to help tackle climate change, we also champion measures to address climate risk within our own operations and more widely.

We are a supporter of the Paris Climate Accord and the transition to carbon neutrality. In order to encourage urgency, we have also set ourselves a range of much shorter-term targets to work towards which require positive action now. Our ambition is perhaps best captured by our membership of the UN-convened Net-Zero Asset Owner Alliance.

We are proud of our track record across all of the ESG areas but we readily accept there is more to do going forward. At Rothesay, we see this as a fundamental part of our commitment to providing our policyholders with security for the future.

Addy Loudiadis
Chief Executive Officer
30 June 2021

Our Pathway to Net Zero

This is Rothesay's first ESG report and we are pleased to set out a comprehensive pathway within it to achieving net zero across our business by 2050.

We believe that setting out a clear pathway to net zero, backed up by real actions along with regular reporting, is absolutely vital to effect meaningful change in the decades before 2050. For this reason, we have aimed to provide as much detail as possible on our business, and our commitments, and set regular milestones for the years ahead.

While much of our reporting focuses on reducing greenhouse gas emissions, we are aware that these alone are not sufficient to determine the climate change risks faced by individual companies or organisations.

For this reason, where possible, we have set out the work we have done to examine single issuer credit risk through as wide a climate change lens as possible. We also report on the Carbon Intensity of as large a part of our portfolio as possible, as we believe this is the best way to measure our overall risk.

We know that working and collaborating with others is essential too, as we collectively tackle the challenges that climate change presents. We have identified a number of partners we are working with along the way as we make the pathway to net zero a reality.

Our approach in numbers

Carbon Intensity =

188

t CO_2e / mm USD borrower revenue

Carbon Neutral (Rothesay's direct operations)

By 2023

Carbon Intensity coverage =

86%

of portfolio by market value

Net Zero (investment portfolio)

By 2050

Our Pathway to Net Zero

continued

Our Pathway to Net Zero strategy includes activity and commitments across our investment portfolio, our own operations and our people. It also identifies the external partners with whom we are working and our commitments to them:

Our investment portfolio

- **Net zero by 2050 –** Rothesay is committed to transitioning our investment portfolio to net zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5 degrees above pre-industrial levels as outlined in the Paris Agreement.
- **20% reduction by 2025 –** we aim to reduce the Carbon Intensity of our portfolio by 20% over the next five years.
- **Regular and transparent reporting –** we will regularly report on our progress and publish the Carbon Intensity of our portfolio on an annual basis. We will always be clear on where our data is sourced and what parts of our portfolio it covers.
- **Investing in the low carbon economy –** we will partner with governments, and industry, to identify ways in which we can increase our lending to sectors which support a low carbon economy.

Our business

- **Climate risk –** Rothesay will have fully embedded climate risk into our business and risk management processes by the end of this year.
- **Carbon neutral by 2023 –** we aim to become carbon neutral, or negative, with respect to our own business' Scope 1 and 2 emissions within two years.
- **100% renewable electricity –** by the end of this year, all electricity provided to our office will come from a supplier of 100% renewable electricity as certified by the Carbon Trust.

Our people

- **Leadership from across our business –** our Climate Change Working Group has representation from all of our business units, including Trading, Investing, Credit, Risk and Finance. It is chaired by our Head of Investment Strategy who sits on the Senior Executive Committee of our business.
- **Helping our people reduce their carbon footprint –** last year Rothesay launched a new employee benefit offering low cost, tax efficient leasing of zero emission electric vehicles to all employees along with our existing cycle to work scheme.
- **Embedding climate responsibility in all our operations –** we believe all our employees have a responsibility to support our path to net zero, so our annual performance review process will include criteria which reflects this.

Our partners

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

PRI Principles for Responsible Investment

UN environment programme finance initiative

The ESG Social Housing Working Group

> It is vital that the insurance industry works together to deliver a clear pathway to net zero and that we champion the regular reporting needed to keep our efforts on track. We are pleased to join the Net-Zero Alliance and support its work which we see as a fundamental part of our commitment to providing our policyholders with security for the future.

Addy Loudiadis
CEO of Rothesay

Environment

Context

Our approach to climate change risk

Throughout this report, when we make reference to climate change it is a shorthand for all the possible consequences of the increasing atmospheric concentration of CO_2 and other greenhouse gases caused by human activity. In the base case, the principal consequences are:

- **Rising sea levels** caused by melting polar and glacial ice and causing flooding of many of the world's largest cities
- **Increasing intensity and duration of droughts** in the world's driest places together with increasing precipitation in the wettest
- **Increasing intensity and frequency of hurricanes**
- **Increasing acidification of the oceans** leading to destruction of species that comprise the base level of the food chain

Furthermore, positive feedback effects that are likely to amplify and quicken the impacts of climate change include:

- **As the ice caps shrink**, the earth reflects less of the sun's radiation, absorbs more energy and warms further
- **Increased incidence of heat waves** sparks forest fires which release more CO_2 into the atmosphere

A combination of the above effects has already begun to increase famine and poverty which could lead to the displacement of large populations, putting pressure on the resources of those regions less susceptible to physical change and causing a rising risk of civil unrest. Unless emissions are quickly curbed, the consequences are likely to become more severe.

The financial services sector is used to dealing with an uncertain future and taking action to manage risks accordingly. Rothesay believes we should be at the forefront of the response to climate change given there is no scenario where it makes sense to ignore it. At one extreme the world will demand drastic changes in corporate and individual behaviour in an effort to minimise climate change. At the other, emissions will be allowed to rise unchecked, leading to overwhelming changes in the physical environment. There are clear steps we can take now to limit a potentially very costly downside which involve examining all investments for potential weaknesses in these or any intermediate scenarios.

We aim to ensure that our investment portfolio is allocated to companies that are determined to address the challenges of climate change. We do this through monitoring their progress, assessing the likelihood of their failure and reallocating our funds accordingly. Our ability to identify and invest early in enterprises that successfully navigate to a low carbon future is vital to our ability to carry out our core purpose: securing the future for our policyholders by protecting their pensions.

Our progress and commitments

Our progress

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.

Rothesay is committed to supporting a low carbon economy in which the UK achieves carbon neutrality. In practice, that means that we are aiming to reduce the emissions associated with our portfolio to net zero by 2050 and for it to be aligned to well below 2ºC (and preferably 1.5ºC) of warming beyond pre-industrial levels. As an interim step, we will aim for a reduction of 20% in the Carbon Intensity of our portfolio over the five years to 2025.

We expect that the entities in which we invest will themselves be working towards reducing their emissions so we anticipate that little portfolio rebalancing will be required if our initial asset allocation is well considered. Given the geographical concentrations of our portfolio, this should be aided by the UK's continuing shift to a greener mix of energy generation alongside other geopolitical efforts such as the introduction of legislation in the USA to encourage the greening of their economy.

In addition, Rothesay aims to become carbon neutral in its own operations within two years. Among the steps we will take to achieve this is the use of an energy supplier that provides electricity from renewable sources and the purchase of carefully vetted carbon offsets.

Rothesay has completed a detailed analysis of the sectors in its portfolio with the highest climate risk exposures. We have also attempted to assign, or estimate, a measure of Carbon Intensity for as many of the individual assets we hold as possible (by market value, 86% of the portfolio) and each year will endeavour to improve the quality and coverage of the data we use to measure overall emissions. In this report we have sought to demonstrate how we assess the temperature alignment of various companies by consideration of the expected trajectory of their future emissions. Next year, we aim to further systematise this approach and thereby develop an overall temperature alignment measure for Rothesay's portfolio against which we can monitor and manage risk.

Finally, during 2021, Rothesay intends to develop scenario analysis to aid with understanding the correlated response of the various sectors of the portfolio, under any of the different emission pathways put forward by the Network for Greening the Financial System. While Rothesay is not among the five life insurance companies who are formally participating in the Bank of England's Biennial Exploratory Scenario, we will look to meet these standards among which the derivation of plausible stresses to asset prices is the most challenging.

Our partners

There are numerous organisations and standards that have been set up to help and encourage financial institutions to tackle the challenges presented by climate change. Many of them have overlapping philosophies, goals and levels of engagement, making it unnecessary to join them all. Rothesay, so far, has decided to support the following, all of which are very well established, make recommendations that are widely adopted and provide clear frameworks for their signatories to follow:

- **Rothesay is a member of the UN-Convened Net-Zero Asset Owner Alliance.**
- **Rothesay is a supporter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and endorses its recommendations.**
- **Rothesay is a signatory to the UN Principles for Responsible Investment.**

Rothesay is also an early adopter of the Sustainability Reporting Standard for Social Housing.

Our commitments

Rothesay's commitment to tackling climate change is best expressed by the pledge we took upon joining the Net-Zero Asset Owner Alliance. The targets are purposefully challenging, as we believe this is the best way to drive action which will have a truly meaningful impact:

- **Rothesay commits to transitioning its investment portfolio to net-zero greenhouse gas emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels, considering the best available scientific knowledge, including the findings of the IPCC.**
- **We will establish and report on intermediate targets every five years in line with Paris Agreement Article 4.9.**
- **In the first of these five-year periods Rothesay aims to achieve, by 2025, a reduction of 20% in the Carbon Intensity of its portfolio of publicly traded corporate debt from the base level stated in this report.**
- **Rothesay is on track to have fully embedded climate risk into our business and risk management processes by the end of 2021.**

Our governance

Rothesay has sought to embed responsibility for the risks associated with climate change throughout our business.

For this reason, Rothesay's Climate Change Working Group (CCWG) has representation from all of our business units, including Trading, Investing, Credit, Risk and Finance. It discusses developments each week, meets formally once a month and is the forum at which all climate change related work is first discussed.

Members of the CCWG have been responsible for developing our plan to identify, measure, manage and report Rothesay's climate change risks. They have also been responsible for taking back to their respective business units components of the work required by the plan and collaboratively completing the tasks. For example, trading and credit specialists have worked together on examinations of the most carbon intensive industry sectors and companies in which the Group invests, while property specialists have worked with external consultants to understand the flood risk to which our portfolio may be susceptible in certain climate scenarios as well as the energy efficiency of the buildings which we hold as security against our mortgage loans.

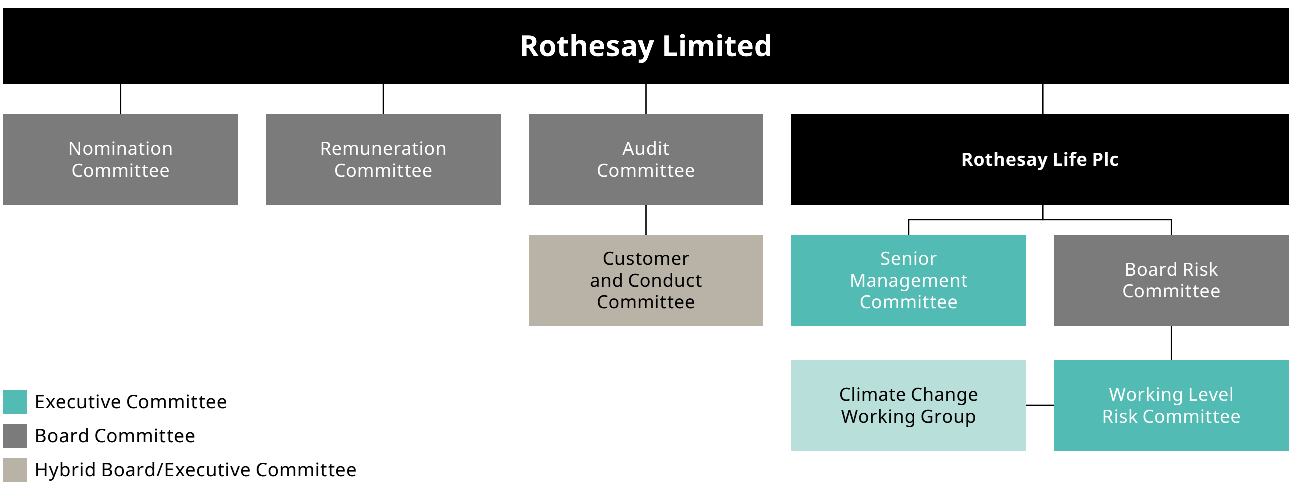
The CCWG is a sub-committee of the executive Working Level Risk Committee (WLRC). The CCWG is responsible for the implementation of a climate change risk management framework and acts within the parameters established by the WLRC. It is accountable for business standards and practices, including reputational risk management, within the scope of its mission and reports directly to the WLRC.

The PRA requires that Senior Management Functions be nominated to take overall responsibility for identifying and managing the risks from climate change and Rothesay has selected to share that role, the Head of Asset & Liability Management and the Chief Risk Officer representing both business management and risk control. In addition, the Head of Investment Strategy is the Senior Executive Committee representative on, and chair of, the CCWG.

Work pertaining to the risk of climate change is initially presented and discussed at CCWG meetings. The most important items are subsequently presented for approval to the WLRC and ultimately the Board Risk Committee (BRC) or the full Board. Since the presentation of the results of the 2019 PRA climate stress test, the topic of climate change has become a standing item at both 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 at overall portfolio level; and sector-specific information that provides a guide to decision making at a granular asset-by-asset level.

The effort to embed climate awareness has been substantially aided by strong leadership on climate change from the top of the organisation. In addition, a strength of Rothesay's culture is that we believe that every individual's voice should be valued and listened to. This has meant that all levels of the business have felt empowered to challenge and inform our approach and devote time to working on our response.

Finally, to further embed climate stewardship throughout the business, the Board will ensure that awareness of, and response to, climate risk is included as a factor in future year-end performance reviews.



Our strategy

Identification of climate-related risks

Rothesay secures the future for its policyholders by insuring their pensions. This means we take responsibility for liabilities that extend out to fifty years and beyond. The most sensible way to ensure that these liabilities are met is for Rothesay to own a portfolio of assets that produce cash flows that closely match the expected outgoings.

To achieve this, Rothesay invests across the maturity spectrum from the short term (less than ten years) to the long term (greater than 30 years) and everything in between.

Climate change and asset strategy

In considering climate change risk, Rothesay's investment portfolio can be divided into three main groups according to the approach we take to measuring climate metrics:

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

This partitioning happens to be quite similar but not identical to that described in the Annual Report, which distinguishes: Cash and Government Bonds; Infrastructure and other corporate bonds; Secure, illiquid assets. For example, the relatively small quantity of non-property linked, secure, illiquid assets appear in the Corporate Bonds and Infrastructure Lending group for the purposes of this report.

Supranational, sovereign and public finance bonds

The main elements of this group are bonds guaranteed by the UK sovereign, mostly Gilts. These bonds have, to a large extent, long maturities and are held for a variety of reasons: from the perspective of a UK-based investor they are maximally creditworthy; they are liquid; and they provide inflation-linked returns to match pension liabilities.

Insofar as climate risk is concerned, the UK has a number of advantageous attributes the physical impact of climate change in the UK is predicted to be relatively muted; the UK's government was the first major economy to pledge that the country will be carbon neutral by 2050; there is a track record of declining carbon emissions as it has moved away from coal-fired power generation; and it has an ambitious programme of green legislation including, for example, a ban on new petrol and diesel cars from 2030.

If Rothesay were to own nothing but Gilts, and the UK successfully fulfilled its 2050 pledge then, de facto, Rothesay would meet its climate goals. This also means that we can use the UK as a whole as a benchmark for comparing emissions with the other borrowers to whom we lend.

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. We do not operate any blanket sectoral (e.g. oil & gas) exclusion policies that might be found, for example, at a specialist ESG fund, as we do not believe that rapid total divestment is the optimal strategy for either limiting climate change, or indeed other ESG impacts, such as poverty brought about by a domino effect of unemployment. The unsustainable approach of instantly shuttering key sectors of the economy has been highlighted during the COVID crisis.

Rothesay does, however, limit its investments in the most carbon intensive sectors in order that the emissions of our portfolio as a whole can be aligned with our climate goals. Furthermore, within each carbon intensive sector, we try to identify those firms most likely to adapt to a low carbon world. We are also alert to risks associated with companies that, while not highly emitting themselves, have significant emissions in their supply chain.

This involves detailed credit work with the addition of a climate lens. Where we identify climate risk, we limit our investments both in size and maturity while lending in the most liquid corporate bond format so that adjustment can be made when outlooks or circumstances change long before default or downgrade. Within the timespan covered by much of Rothesay's corporate bond portfolio, the risk is less to the vulnerability of a company's buildings and plant to physical climate risk (such as flood or storm damage) than to the impact of governments regulating the transition to a low carbon economy and change in consumer preferences. However, where it is important, we also consider the location and vulnerability of key assets, particularly infrastructure.

Our strategy
continued

Bonds and loans secured by property

Among our secured illiquid assets most are backed by property, principally UK and Dutch residential real estate as well as commercial real estate in the UK, US and Australia.

For these investments, their location is such that the risk of wildfire is low but an assessment of flood risk is undertaken prior to lending and the Group is in the process of conducting climate scenario analysis in which possible flood maps of the future are used to understand which buildings currently thought to be safe from inundation may become susceptible with differing degrees of global warming. Property is also not immune from transition risk, however, and Rothesay is alert to the possibility of government regulation requiring energy efficiency improvements or resulting in a change in demand for property use. Indeed, the UK already requires a residence to have an EPC rating of E or better if it is to be rented out and is consulting on strengthening this standard to a rating of C or better. Rothesay has assessed its possible losses in a scenario in which an EPC rating of C or better is required prior to sale of a property.

Going forward: green investments

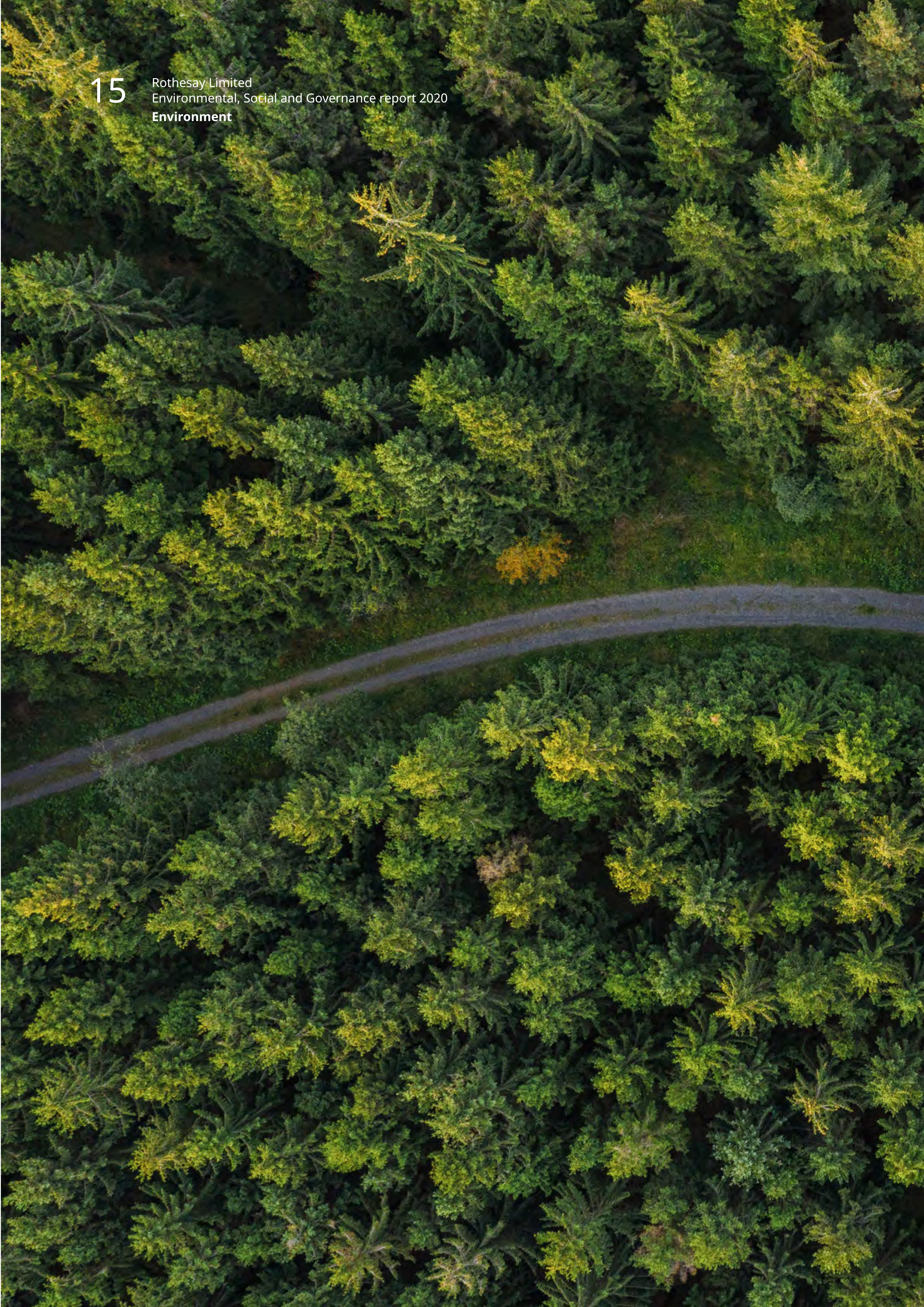
The market for true green investments is still evolving. To date, the Group has found few pure green infrastructure investments that meet its strict credit and risk criteria with the exception of loans we have made relating to the UK's programme of offshore wind infrastructure. This is, though, an area that we are committed to supporting as the market develops and in particular we stand ready to help fund projects that aid the transition to a low carbon economy and benefit from some level of governmental support. Pending the development of the green market, Rothesay supports those investment grade corporations which contribute to the goal of sustainable energy provision (for example through their interests in nuclear power) through financing their activities in the bond markets.

Climate change and longevity risk

The most significant risk that Rothesay runs on the liability side of the business is to the longevity of its policyholders. All the other risks, such as to inflation and interest rates, are very closely hedged and while longevity risk is to a large extent also reinsured, residual exposure is retained by the Group.

For climate scenarios in which global warming is kept to within non-catastrophic levels, we would expect the number of deaths associated with low winter temperatures to decline. This may translate into a marginal increase in longevity, though it could result merely in a flattening of the seasonality effect.

In climate scenarios where emissions, and hence warming, are not brought under control, the prospects for mortality could become severe. The effects on respiratory and circulatory medical conditions of prolonged summer heatwaves could easily outweigh those of milder winters.



Risk management

Identifying and assessing climate-related risks in the asset portfolio

Rothesay's process for identifying and assessing climate risk is conducted on two levels: that of the overall portfolio and that of individual sectors and issuers.

Since climate change may very well adversely affect numerous regions and businesses at the same time, it is unwise to believe that diversifying climate risky holdings among many countries and industries will be of any use. For that reason, it is important to understand the aggregate climate riskiness of the portfolio. We do this by estimating a Carbon Intensity measure (using data provided by Trucost or sourced through independent research) for each asset and summing them to obtain a weighted average for the portfolio as a whole.

At this stage in the development of our ESG framework, we have chosen to assess portfolio-wide Scope 1 and 2 emissions only. Assessment of Scope 3 emissions is challenging and available data is limited. Furthermore, this approach means that we reduce the risk of double counting (as one issuer's Scope 3 emissions will constitute another's Scope 1 and 2 emissions). Nevertheless, we will look to evolve our approach as the quality and coverage of data improves over time and will make use of Scope 3 emissions numbers when analysing individual companies for which they are important and data is available.

Criteria for assessing climate risk

We believe that studying the Carbon Intensity (CI) of individual issuers and sectors is a useful first-order guide as to where to concentrate our business' efforts to understand fully those posing the greatest risk to the portfolio.

In addition to Carbon Intensity, we use physical location (e.g. in relation to Dutch mortgages) and the Vigeo-Eiris ESG rating system as indicators of asset classes and issuers that warrant further investigation.

Climate culture is sufficiently embedded within the Group that we expect our credit analysts and traders to not simply look at the readily available metrics, but to also ask themselves:

> "What climate risks could possibly be faced by this entity?"

We discuss the Carbon Intensity of Rothesay's portfolio in detail in the 'Metrics and results' section of this report.

Working with third-party providers of data and analysis

Our corporate bond portfolio comprises securities issued by large investment grade companies whose disclosure is already generally adequate for our purposes. The Trucost data that we obtain covers over 92% of the portfolio. Small and medium-sized enterprises often lack the systems to provide data but the main area where this affects Rothesay is with some registered providers of social housing. For that reason, Rothesay has become an early adopter of the ESG Social Housing Working Group's Sustainable Reporting Standard for Social Housing.

Where our analysts need more information than the above approach can provide, we often request it from the relevant company directly. In addition, Rothesay is engaged with the Association of British Insurers and UK Finance to find a way to benefit from an industry initiative to send questionnaires to issuers who don't currently provide relevant information.

In our investigation of the risk posed to the firm by investments in the most carbon intensive sectors of the portfolio we carry out an analysis of scenarios that are particularly concerning for the narrow groups of entities included in any one study (e.g. reduced demand for oil; regulatory curbs on vehicle emissions). While this is a useful aid to decision making on individual names, it remains a goal for 2021 to conduct the consistent portfolio-wide scenario analysis envisioned by the PRA in its Climate Biennial Exploratory Scenario. To progress beyond the level of the highly prescriptive Climate Change Scenario in the 2019 PRA Life Insurance Stress Test, we have engaged Planetrics (formerly Vivid Economics) to support us in implementing a suite of climate scenarios that will apply consistent stresses across the whole portfolio and help us understand the extent of correlation or concerted asset underperformance we face.

This will include additional tools for understanding the impact of possible new regulations as well as physical weather patterns. For example, in addition to the EPC scenario mentioned in the Strategy section above, which anticipates a transition risk, our Dutch mortgage portfolio is subject to a flood scenario analysis which considers the likely effectiveness of the dyke system against sea level rises in standard warming scenarios prescribed by the Intergovernmental Panel on Climate Change. The result is expressed in terms of a cost to the portfolio that the associated repairs would incur.

Risk management

continued

Managing climate-related risks

In addition to our headline commitments laid out at the beginning of this report, Rothesay has a number of shorter-term goals and targets that assist in the management of climate risk.

As part of its overall suite of metrics, Rothesay compares the Carbon Intensity of its investment portfolio to both that of the broad GBP bond market (CI = 215 t CO_2e/ mm USD revenue as represented by the iBoxx sterling index) and that of the UK Sovereign itself (CI = 160 t CO_2e/ mm USD GDP). (Were the index broadened further to include the US market, in which Rothesay has numerous holdings, its Carbon Intensity would be higher.) **Rothesay's current investment portfolio has a carbon intensity of CI = 188 t CO_2e/ mm USD revenue, which is roughly midway between the broad market benchmark and an ESG bond fund** e.g. BlackRock iShares ESG U.S. Aggregate Bond ETF (CI = 155 t CO_2e/ mm USD revenue). A detailed breakdown of this measure is included in the 'Metrics and results' section.

We recognise that while tracking benchmarks through time in terms of climate change can be a useful tool, it is only appropriate if those benchmarks themselves are following a trajectory compatible with net zero by 2050 and well below 2ºC (and preferably 1.5ºC) of warming. For that reason, we also need to track the decline of Rothesay's Carbon Intensity in absolute terms. Despite a relatively low starting point for that number, we aim to see a **reduction of 20% over the next 5 years to 2025** which is within the range of targets suggested by the Net-Zero Asset Owner Alliance.

20%

reduction over the next 5 years

At the level of individual issuers and sectors considered high risk in relation to climate change, we use detailed credit analysis to guide decisions about the size and maturity of investments we are prepared to make. For entities that make no climate change disclosures or show no evidence of having plans to adjust their business models in order to survive in a low carbon economy, Rothesay imposes stricter limits on holdings, including zero in certain circumstances, than would be the case were they determined by company size and credit rating alone. However, just as Rothesay is only now making its first climate change related disclosures, so we remain alert to similar progress at the companies in which we invest. As a further risk management technique, Rothesay limits its investments in the most carbon intensive names to liquid corporate bonds which are relatively easy to sell should the judgements we have made about the future trajectory of emissions prove to be mistaken.

Going forward

Rothesay is committed to improving its analysis and processes for climate risk management over the months and years ahead. To that end, our framework will continually evolve as our understanding and the underlying data improves. This may include adopting new tools such as the PACTA 2 degrees alignment measurement, which we are investigating, and similar offerings from other providers.

Our primary focus to date has been risk management in our existing portfolio rather than seeking commercial opportunities in a decarbonising world. Activities that are deemed to be sustainable continue to evolve (with the so called EU Taxonomy) and so, as part of the process of understanding the positive effects the Group's lending has, we have begun to measure the eligibility and alignment of the issuers in the portfolio with these activities. We have not drawn concrete conclusions from this work as yet, but expect our approach to funding positive initiatives to mature considerably over the next few years.

Integration of climate-related risk into overall risk management

At the heart of Rothesay's asset risk management are our Investment Committee, Working Level and Board Risk Committees and the Transaction Approval Committee which 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. The Climate Change Working Group is a sub-committee of the Risk Committee, whose purview is the set of existing risks to which the firm is exposed, and has a membership drawn from all divisions of Rothesay's business which ensures that climate risk is not the preserve of a particular silo and instead encourages initiative from all participants across the three lines risk framework (the first line comprises the transaction teams, the second line the risk control teams and the third line is the internal audit team).

Climate data is stored bond by bond in the Group's trading and risk management system and is as easily accessed as yield or credit rating. The Vigeo-Eiris online ESG tool is available to all employees, encouraging them to undertake risk assessments relevant for their own work. The changes to Carbon Intensity caused by trades undertaken on the corporate bond desk are reported to management each week. Materials presented to the Board and management are also made available upon request to any employee for training purposes.

Metrics and results

Rothesay seeks to assess its climate risk both for the investment portfolio as a correlated whole and across individual, differentiated sectors and assets.

Sovereign bonds

The Carbon Intensity for Rothesay's sovereign guaranteed bonds is computed using freely available information from the European Commission Joint Research Centre and the PBL Netherlands Environmental Assessment Agency.

Corporate bonds and infrastructure lending

When assessing individual sectors, we include in the analysis of a borrower's credit risk an examination of their efforts to respond to the challenge of succeeding in a low carbon economy. As part of this work, we identify the most suitable carbon intensity metric for the sector, be it g CO_2e / km for an auto maker, g CO_2e / MJ for energy companies, or t CO_2e / mm USD GDP for a sovereign. In addition, we attempt to assess the trajectory of a borrower's emissions and whether it is likely to align with the Paris goal of limiting warming to well below 2ºC (and preferably 1.5ºC). We acknowledge that this is both subjective and ever-changing as companies are continually announcing or improving their strategies. For this reason, we prefer to adopt a scorecard approach that captures the relevant risks and can be updated as news is released rather than solely relying on annual updates to published emissions.

Across the portfolio as a whole, the goal is to ensure that even with careful sectoral risk management Rothesay is not, in aggregate, excessively exposed to climate risks. To achieve this we have assigned a uniform Carbon Intensity measured in (t CO_2e / mm USD revenue) to every asset in the portfolio for which we can obtain the relevant information. Summing these individual Carbon Intensities weighted by the market value of our position leads to an average Carbon Intensity for the portfolio which can then be subject to monitoring, limits and targets.

Using data from Trucost we can do this for the vast majority (92%) of our corporate bond portfolio and this data is updated every day as the companies covered make new disclosures. Rothesay feeds this data into its trading and risk management system, storing it alongside other asset-by-asset information. We also subscribe to the Vigeo-Eiris database which overlaps to a large extent with that of Trucost, allowing accuracy checks to be conducted. Furthermore, in our detailed single name analysis, we read original company disclosures which can provide a second consistency check. In the handful of cases where we find inconsistencies in Trucost or Vigeo-Eiris we report them so that they can be amended for the benefit of all subscribers.

Bonds and loans secured by property

The preferred approach to the property lending portfolio is to find out the emissions associated with a particular building, preferably using utility invoices but where these are not available we use information either directly from an Energy Performance Certificate (EPC), or equivalent, or indirectly by extrapolating from data known about very similar buildings. This is combined with a rent assessment whose value will either be the known rent for a building that is let or an estimated rent for a building that is owner occupied, where again we extrapolate from nearby buildings with similar characteristics.

Aggregated Carbon Intensity (Scope 1 and 2) for the Rothesay investment portfolio

Rothesay has gathered data for the emissions associated with all investment groups in its portfolio. **The overall percentage of the portfolio by market value for which we have obtained data or made estimates is 86% and for this portion of the portfolio the average Carbon Intensity is 188 t CO_2e / mm USD revenue.**

The breakdown for year end 2020 is shown in the table below:

	Scope 1 and 2		
Category	Weighted average Carbon Intensity (t CO_2e/mm USD)	Data coverage (% market value)	Total market value (£bn)
Supranationals/Sovereign/Public	**140**	**75%**	**19.6**
UK Sovereign	160	82%	
US Sovereign	320	100%	
EU Sovereigns	205	60%	
Other Sovereigns	310	100%	
Supranationals	0.2	98%	
UK Sub-Sovereigns	212	31%	
EU Sub-Sovereigns	87	100%	
Other Sub-Sovereigns	–	0%	
UK Public Finance	22	55%	
US Public Finance	53	61%	
Corporate and Infrastructure	**201**	**92%**	**17.0**
Infrastructure and Utilities Bonds	480	95%	
Other Corporate Bonds	83	93%	
Covered Bonds	7	96%	
Secured Financing	6	67%	
Bonds with CDS protection	255	82%	
Property	**212**	**92%**	**21.8**
Loans secured on freeholds with ground rents	159	100%	
Social Housing bonds and loans	364	100%	
REITs	86	96%	
UK Mortgages	212	100%	
Dutch Mortgages	159	100%	
Commercial Real Estate loans	53	55%	
Overall portfolio	**188**	**86%**	**58.4**

For the purposes of setting a baseline for our Net-Zero Asset Owner Alliance target, the subset of the above table comprising “Publicly traded Corporate Debt” has a market value of approximately £15 billion of which we have been able to gather emissions data for nearly £14 billion (93%) whose weighted average Carbon Intensity is 226 t CO_2e/mm USD revenue.

Metrics and results

continued

Notes on methodology

Emissions data takes somewhat longer for many companies to produce than their standard financial data. It was our aim to base this year end 2020 Rothesay disclosure on 2019 information provided by our borrowers. Unfortunately, at the time of publication we have had to rely on 2018 numbers for a few issuers and so the results displayed above are still subject to modest revisions.

The sector and overall averages are computed by weighting individual borrower carbon intensities by the market value of the corresponding assets as a proportion of the total market value of assets for which we have obtained data.

As mentioned earlier, for the preponderance of issuers (Corporates and sub-Sovereigns) our primary source of information is the Trucost database which feeds into Rothesay's integrated pricing and risk management system and updates automatically as new information is released. The numbers used have been checked for consistency with data from earlier years, with any outliers being further investigated using alternative sources such as the Vigeo-Eiris database, Bloomberg, company disclosures and data published by industry bodies. Occasionally, if none of these sources are available and an issuer belongs to a homogeneous sector, it has been possible for Rothesay analysts to make an estimate of the undisclosed carbon intensity.

The following notes describe the approach we have taken for sectors not covered by Trucost:

- **UK, US, EU and Other Sovereigns:** The carbon intensity measure is defined as annual t CO_2e / mm USD GDP. The emissions refer to those produced within the country and do not include those generated in producing imported items.
- **Supranationals:** The emissions and revenues are taken from the institutions' annual reports. Part of the reason for the low number is that revenues have been deemed to include interest income from lending but not netted for interest expense on borrowing.
- **Public Finance:** Limited information is available in relation to universities, so as well as deriving data from direct publications of the institutions themselves we have used the third-party sources The Carbon Footprint Registry and the Association for the Advancement of Sustainability in Higher Education to which some universities have disclosed information. In addition, a number of universities responded to our private requests for data. For the hospitals sector which is relatively homogeneous, we have used estimates provided by Vigeo-Eiris that extrapolate according to the size and location of the system from a few institutions that do provide full disclosure. While this is clearly less reliable than some of our measurements, this is the only data currently available.

- **Property:** The carbon intensity measure is defined as annual t CO_2e / mm USD achievable rent. When lending to an owner occupier the emissions in Scope 1 and 2 are derived from all energy used to heat, light and air-condition the building. When lending to a landlord, however, it is more usual for the Scope 1 and 2 emissions to be limited in source to the energy supplied to the common areas by the landlord while the tenants' energy use is deemed to generate Scope 3 emissions which may not always be reported. Where possible we have sought to include tenant generated emissions in our numbers. Also where possible we use actual energy consumption data in our emissions calculations, but due to the limited data available, we frequently need to use the estimated numbers that appear in Energy Performance Certificates. Taking the individual sectors in turn:
  - **Loans secured on freeholds with ground rents:** We have address and rental valuation data for all properties. Where properties have EPCs on file we use the emissions estimate therein and in all other cases extrapolate from the EPC information we are able to obtain for neighbouring properties within the same postcode. This sector is dominated by modern apartment blocks with emissions well below those for the average UK dwelling.
  - **Social Housing:** Disclosure from this sector is not commonplace though we expect it to improve in the near future and have signed up as an early adopter of the Sustainability Reporting Standard for Social Housing. In the meantime, we judged that our portfolio is sufficiently large and diversified that national average numbers will provide an adequate reflection of aggregate emissions. The Sustainable Energy Association (SEA) estimates that average emissions per social housing dwelling were 2.6 t CO_2e in 2018. All registered providers report the number of units pledged against their borrowing as well as the rental income derived from them, so combining this with the SEA emissions estimate allows an estimate of the portfolio carbon intensity. The relatively high carbon intensity of this sector is a reflection of low rents rather than energy inefficient housing.
  - **REITs:** We have obtained data for 62% of this sector of the portfolio and in those cases information provided is limited to the emissions due to the landlord. This explains the relatively low carbon intensity.
  - **UK Mortgages:** We followed the same method used for loans secured on freeholds with ground rents.
  - **Dutch Mortgages:** Every property has been individually assessed for both its emissions and its achievable rent.
  - **CRE lending:** Most of the lending in this sector is against single large properties. In the UK and Europe, we have engaged with most borrowers to obtain the emissions data for the buildings in question or, where such data is not available, we have been able to make use of recent EPCs. In the USA, it has proved more challenging to obtain data. One exception is an American hotel business which publishes a comprehensive sustainability report and has plans for a dedicated solar power generator. The buildings we finance are generally modern and energy efficient, leading to a low carbon intensity.
- Where emissions data is estimated using EPCs, the raw numbers will usually not change year on year because EPCs only need to be renewed after ten years. We can, however, expect emissions from properties to vary in line with the decarbonisation of the national energy supply.
- Note that the difference between the overall portfolio shown in the table and our assets under management of £62.0bn consists mainly of our cash holdings.

Our direct emissions

Scope 1, 2 and 3 emissions

Rothesay's business premises in London are split between two central floors of The Post Building, occupying approximately 4,550m². The Energy Performance Certificate for this new building was issued on 2 May 2019 and states that the Energy Performance Asset Rating is 31 which gives it a rating of B, very close to the A rating boundary. If the building were typical of the existing stock, rather than newly built, it would be expected to be rated E.

In 2020, The Post Building was not fully occupied and therefore, in the numbers below, Rothesay has been allocated a larger share of the emissions attributable to the common areas than will be the case in future. In contrast, the 2019 numbers do not include any allocation from the common areas of The Leadenhall Building which was Rothesay's business premises until it vacated at the end of 2019. Rothesay's emissions are as follows for the calendar years 2020 and 2019:

	2020	2019
Energy consumption (kWh)	**1,197,093**	815,012
Total CO_2e emissions (in tonnes)	**263.4**	189.5
Scope 1 CO_2e emissions (tonnes)[1]	**58.6**	48
Scope 2 CO_2e emissions (tonnes)[2]	**203.4**	135.9
Scope 3 CO_2e emissions (tonnes)[3]	**1.4**	5.6
Full Time Employees	**305**	238
Emissions intensity (t CO_2e / FTE)	**0.86**	0.80

1 **Scope 1** covers CO_2 emissions occurring from sources owned or controlled by Rothesay. For 2020, these emissions were estimated using the Area Method, as detailed by The Climate Registry's General Reporting Protocol v3.0.

2 **Scope 2** covers CO_2 emissions from the generation of electricity purchased by Rothesay. These are primarily calculated using meter readings, with the Area Method used to estimate Rothesay's contribution for communal office areas.

3 **Scope 3** covers CO_2 emissions occurring from business travel in rental or employee-owned vehicles where Rothesay is responsible for purchasing the fuel. These are estimated from total mileage by using the "Average car" and "Petrol" conversion factor from the UK Government's GHG conversion factors for Company Reporting in 2020.

Reducing our carbon footprint

Rothesay has a number of environmental initiatives in place to reduce our own emissions and support our people to reduce theirs:

- Secure printing makes it impossible to print unless an individual stands by the printer. In addition, papers are no longer printed for meetings, rather displayed on meeting room screens, and the widespread introduction and acceptance of DocuSign means almost no printing is required purely for the purposes of collecting signatures. Together with the reduction in printing due to home working necessitated by COVID-19, these measures have seen a 70% decline in Rothesay's paper consumption.
- Rothesay provides secure cycle parking for all employees in the basement of The Post Building.
- Rothesay operates a popular cycle to work scheme giving employees a tax efficient way to purchase a bicycle.
- In November 2020, Rothesay launched a new employee benefit with an offer of low cost, tax efficient leasing of zero emission electric vehicles.
- Rothesay's employee meal and taxi services are both low emission providers.

Waste

Rothesay has estimated its production of waste as a fraction of the total building's waste pro-rated by floor space. For 2020, the numbers are much lower than would have been expected in the absence of the COVID-19 pandemic's dramatic effect on office occupancy.

The Post Building – Commercial waste for 2020

Stream	Rothesay share (kg)
General waste	8,217
Food	5,904
Paper, cans and plastic containers	1,899
Cardboard	727
Glass	521
IT equipment	50
Waste Electrical and Electronic Equipment (WEEE)	2
Total	**17,320**

In 2020, Rothesay's people produced an average of 57kg of waste per employee.

Water

Rothesay's water consumption, including its share of the building's common area usage, was 1,532m^3 in 2020. This equates to about 100 litres (the volume of a typical bath) per week per employee.

Plans for the future

- The move to The Post Building already provides us with a highly energy efficient office, minimising our energy consumption.
- For 2021 the electric energy consumed will come from a supplier of 100% renewable electricity as certified by the Carbon Trust.
- In 2021 Rothesay will investigate the use of carbon offsets with the intention of becoming carbon neutral or negative with respect to its residual direct emissions within two years. We are exploring an implementation of this plan which funds improvements to housing stock. This has the greatest natural synergies with our existing business. According to the London Carbon Offset Price report prepared for the Greater London Authority by AECOM, the cost to save one tonne of CO_2 is of the order of £100 across a range of works such as installation of cavity wall insulation, flat roof insulation, or new storage heaters.
- In 2021 the 360 degree employee review and evaluation will include a component devoted to any efforts made to contribute to the firm's ESG goals.

Our portfolio emissions

This final section of the Environment part of the report is very technical in nature but we have included it because we think it is important that we not only say that we have conducted risk assessments but that we also present those assessments in detail.

Rothesay manages all of its investment portfolio in-house so can prescribe its own measures, produce independent analysis and set its own targets without necessarily needing to align with third parties or external managers. In this section we provide detailed analysis on climate change with respect to certain components of Rothesay's asset portfolio.

For this exercise, we divide our investment portfolio into three parts:

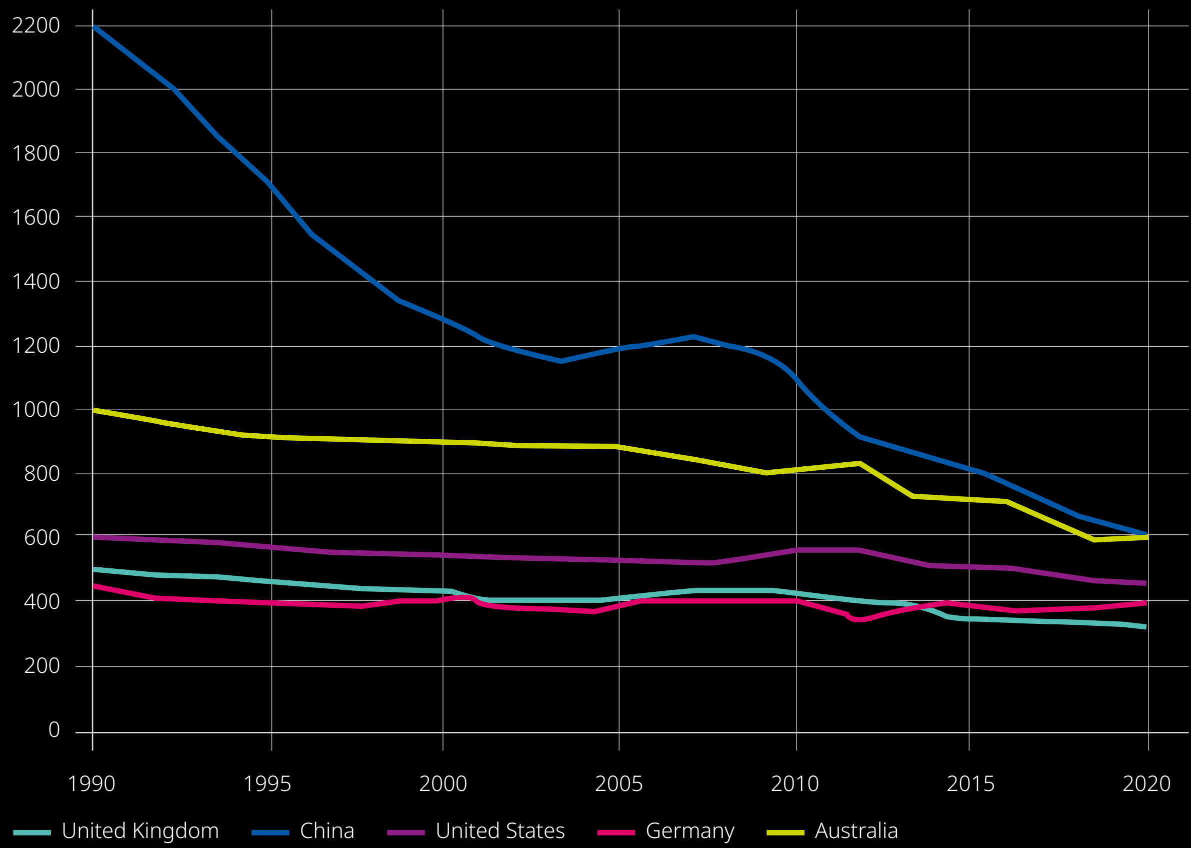
- Supranational, Sovereign and Public Finance bonds (34% / c.£19.6bn)
- Corporate Bonds and Infrastructure Lending (29% / c.£17bn)
- Bonds and Loans Secured by Property (37% / c.£21.8bn)

Supranational, sovereign and public finance bonds

The majority of this section of the portfolio is composed of Gilts and other securities benefiting from the full faith and credit of the UK sovereign.

Given this natural concentration in UK sovereign exposure it is critical to understand the trajectory of the emissions of the nation as a whole and how it compares with other key countries. The UK is currently responsible for about 1% of worldwide emissions, or 0.5 Gt CO_2e out of 51 Gt globally. (The contributions to global population and GDP are roughly 0.9% and 3% respectively.) Our preferred metric measures carbon intensity in tonnes of CO_2e per million dollars of GDP and highlights the following trends:

Carbon Intensity (t CO_2e / mm USD GDP)



Reductions achieved by the UK have been attributable to environmental policies driving the replacement of coal by renewables and nuclear as a source for energy, as well as being a consequence of the material shift from a manufacturing to a service economy. By importing most of its manufactured goods, the UK has exported the concomitant carbon emissions. The 2019 Carbon Intensity value for the UK (160 t CO_2e / mm USD GDP) represents a useful benchmark for the Rothesay portfolio as a whole but the chart makes it clear that broad based investment in almost any other country, such as the US, will likely be associated with higher emissions.

Rothesay has no borrowers domiciled in China but we recognise that it is a country to which we must remain alert. On one hand its use of fossil fuels is growing rapidly (though outpaced by its GDP growth) while on the other it is home to the world's largest wind farm, manufactures more electric vehicles than any other nation and has recently pledged carbon neutrality by 2060.

Corporate bonds and infrastructure lending

The first step in climate risk management of corporate and industrial lending is a consideration of the exposures in the most carbon intensive sectors. Rothesay considers these to be:

- Electricity generation and energy distribution
- Oil and gas
- Construction materials
- Agriculture
- Transport
- Heating and cooling of buildings

Of these, the first is considered the most important, both for Rothesay's portfolio and for the transition to a low carbon economy. This is not only because electricity generation's reliance on burning fossil fuels is not sustainable, but also because the decarbonisation of other sectors depends on a transition to using clean electricity in processes where currently coal, oil or gas are used (e.g. the need for the electrification of transport and heating of homes).

Rothesay has conducted detailed investigations in those areas where we have exposure and below we summarise our findings in a few sample cases.

Generation, transmission and distribution utilities

Bonds issued in this sector account for about half of Rothesay's infrastructure assets. Risk identification in this area can be complex from a climate change perspective, as companies are frequently established as integrated operating entities encompassing a mix of generation, transmission and distribution/retail. Activities and disclosures cannot always, therefore, be identified with individual bond issuing entities.

Generation is the area where emissions, mostly Scope 1 and 2, are concentrated. Rothesay targets companies with meaningful components of nuclear, wind, solar and hydro in their generation mix and our current biggest corporate exposure is to a utility with predominantly nuclear capability. We avoid companies making heavy use of coal, oil, gas and biomass, or, in the case of integrated entities, we direct our funding to the cleanest operating companies when possible.

Transmission and distribution companies produce Scope 3 emissions because they carry the product of fossil fuel generators. They are also responsible for Scope 1 and 2 emissions in the form of cable losses and pipeline leaks but this is at a lower level than those caused by the primary generation. Electricity networks are agnostic as to the source of the power they distribute and will benefit from increasing demand as many industrial and domestic activities undergo electrification. Gas networks, on the other hand, tend to be difficult to convert to transport hydrogen and so may face declining demand such that Rothesay has determined that it will not currently dedicate funding to new gas infrastructure.

There is a very wide range in the quality of disclosure and plans for decarbonisation and, as is the case in most sectors, UK and European entities are typically some of the best. The reasons for this are largely policy driven, but under the new Biden administration it is likely that the US will improve too. With strong regulatory support in place, Rothesay believes that this sector could offer interesting opportunities to fund a green transition at investment grade. The need to replace coal and gas-fired generation capacity is urgent and it should be feasible to lend now, confident that over the long term the regulatory environment will support repayment. Nevertheless, as we strive to meet our 2050 net-zero target as well as our interim goals, Rothesay will often need to weigh the cost of suffering a short-term increase in our portfolio's carbon footprint versus the benefit of backing credible decarbonisation plans for the entities concerned.

Our portfolio emissions

continued

It is vital to be aware of the physical climate risks and associated legal risks to which generation and network infrastructure are exposed. Rothesay, therefore, carefully examines these issues in the regions in which a utility operates before making a capital commitment.

Oil and gas

Bonds issued in this sector currently account for less than 1% of Rothesay's total assets. The Scope 1 and 2 emissions associated with the process of extraction are not particularly significant, but once the Scope 3 emissions associated with burning their product are taken into account, Rothesay's oil and gas issuers account for 6 out of the top 10 emitters in the portfolio.

Rothesay does not believe that it is responsible to immediately and entirely withdraw funding from a sector that currently plays a vital role in maintaining global living standards. It is clear, however, that if these companies do not sufficiently adapt and respond creatively to a decarbonising world in which their customers are under pressure to find alternative energy sources, then they will be stranded with uneconomic production capacity for a product for which demand has reduced and whose price has fallen. This means we are very cautious about allocating any amount of our carbon budget in this sector and seek out only those companies laying out plausible plans and predictions for reducing the emissions intensity of their businesses per unit of energy production.

In assessing our investments in the oil and gas sector, as well as stated company plans, we have considered other related indicators of a company's preparedness for, and adaptation to, a low carbon economy as suggested by the climate think tank, Carbon Tracker, namely:

1. The fraction of upcoming capex projects which are uneconomic in a well below 2 degree (ideally 1.5 degree) world of enforced low demand and low price for the product; and

2. The future price of oil used in scenario analysis to determine the viability of the company's portfolio of extraction assets.

Rothesay has aggregated and scored our issuers based on their performance across the various climate-related factors, both spot and trend, considered in the studies. As a result of this analysis and allowing for higher production from oil sands, limited emissions reduction to date and insufficient information for forward projections, Rothesay's highest level of caution is applied to the US-based issuers in the oil and gas sector.

Automotive

Bonds issued in this sector currently account for less than 1% of Rothesay's total assets. As with oil and gas companies, the climate risk faced is less the result of the car manufacturing process itself, but rather due to the Scope 3 emissions produced by operating the finished product of the business. The advent of electric vehicles, however, means that there is a much clearer path than in the case of the oil majors for the auto industry to redesign its output to avoid emissions.

An important part of creditworthiness of automotive companies will be determined by their response to new climate regulations that come into effect within horizons that are short compared with the typical research and development cycle. In order to survive first the tightening regulatory restrictions on the emissions per km associated with annual auto sales and second the upcoming and widespread bans on diesel and petrol vehicles, car manufacturers will need to make electric vehicles an ever increasing proportion of their fleets.

Rothesay's view is that, in contrast to the oil and gas sector, most vehicle manufacturers are seen to have developed strong environmental strategies. It will be a key to risk management to monitor the evolution of the results that follow over the coming years.

Auto bonds generally occupy the short end of the maturity spectrum (<5 years). This is largely because, to date, most financing is used to support vehicle leasing programmes. To conduct a successful transition to electric vehicles there could be a need for longer-dated funding which Rothesay would be well placed to provide to those manufacturers with the most plausible climate change strategies.

In developing a climate scorecard for the auto sector, as well as electric vehicle production data and Vigeo-Eiris scores, we also use a mixture of spot and forward-looking data for the most useful emissions measure (g CO_2e / km). We consider the total Scope 1 and 2 emissions which can be reduced through improved manufacturing methods and by sourcing greener energy and in addition use current Carbon Intensity (t CO_2e / mm USD rev) including Scope 3 emissions.

On the basis of this scorecard analysis the German auto makers come top. Despite not matching the best spot emissions achieved by the Japanese with their early work on hybrids, the German manufacturers benefit from undertaking a major transition to electric vehicles and having the determination to meet the strict emissions targets in their domestic EU market with the strong balance sheets required to undertake the necessary research.

Our view is that US manufacturers suffer from poor disclosure and little regulatory incentive to develop electric vehicles and are anyway financially weaker than their German counterparts. The iconic EV manufacturer, Tesla, is sub-investment grade so its bonds are not suitable for inclusion in the Rothesay portfolio and it exemplifies the excessive risk we would face in funding some companies which nevertheless undertake important research and development work to combat climate change.

Construction materials

Bonds issued in this sector account for less than 1% of Rothesay's total assets. In contrast to the automotive and oil and gas sectors, the concern is with the manufacturing process for construction materials such as cement and steel, rather than the use to which those materials are put. Construction materials play an important role in activities that Rothesay supports strongly, such as building new energy efficient social housing and renewable energy infrastructure which makes total divestment an inconsistent approach.

Making cement produces CO_2 emissions in two ways: (i) the chemical reaction between limestone and clay to make clinker produces CO_2 as a major byproduct; and (ii) the reaction only occurs at a very high temperature that is achieved by burning fossil fuels, a source of further CO_2.

Cement manufacturers can have carbon intensities in excess of 6,000 t CO_2e / mm USD revenue, which is over 30x the Rothesay average. This means it is important to be selective in our use of carbon budget in this area. We have chosen to concentrate our investment in those companies which have the most plausible plans to:

- Substitute fossil fuels with biofuels and renewably generated electricity
- Introduce new raw materials and reduce clinker content
- Develop viable methods of Carbon Capture and Storage

We note that the research required to achieve some of these goals is at an early stage and for this reason we do not expect a transition to net zero to properly take off until the second half of the period to 2050. Carbon capture and storage, in particular, is unproven and while we are optimistic that progress will be made, Rothesay prefers to concentrate lending where projects are designed to produce less CO_2 in the first place.

Bonds and loans secured by property

Climate change impacts property in two ways.

1. The physical risk associated with the location of the property which may become susceptible to flooding, wildfire, hurricane damage or other extreme climate events. Where these phenomena emerge in climate scenarios, it is typically well into the future but residential mortgages often have sufficiently long maturities that this risk must be analysed.

2. The transition risk associated with increased regulation (e.g. concerning energy efficiency) that may require capital expenditure to bring about a reduction in the use of fossil fuels for heating and indirectly for cooling and lighting. This means both cutting the quantum of energy used and making sure that energy is derived from electricity which is in turn renewably generated.

Rothesay makes loans against property in the UK and Dutch residential markets. The primary asset classes are equity release mortgages in the UK and long-term mortgages in the Netherlands. Below we summarise our approach to risk management in each case.

UK mortgages

Rothesay's underwriting criteria include a restriction that prevents new lending against a property located anywhere but the safest flood zone 1. We are in the process of enhancing our UK flood assessment to account for changes in the flood map that are likely to arise in various standard warming scenarios.

Our portfolio emissions

continued

There are roughly 36 million households in the UK annually producing on average about 3 t CO_2 each. This means residential energy use is responsible for around 20% of GHG emissions in the UK and while decarbonisation of the energy supply will go a long way towards cutting household emissions, increasing energy efficiency is also a vital policy goal. We expect to see legislation designed to enforce building improvements such as: loft, wall and floor insulation; hot water system insulation; improved glazing; replacement of gas boilers by electric water and space heating; and increased use of solar power.

Before a property is marketed for sale it must have a valid EPC certificate but there is no minimum rating that has to be achieved. However, in April 2018, it became a requirement for any property rented in the private sector to have a minimum EPC rating of E and the government is already consulting on strengthening that standard to a rating of C. If a similar requirement was introduced to properties for sale then this could reduce the value of the residential property against which we have made loans, as the value may be materially impacted by the refurbishment costs. For this reason, we run a scenario analysis to understand the loss that would be experienced by the mortgage portfolio should rules be introduced requiring a level C EPC rating prior to putting a dwelling up for sale. This scenario analysis is a critical feature of our loan underwriting in the UK.

The analysis is conducted using two pieces of information: the EPC rating for each property and the cost, if any, of the required improvement to reach level C. Once these valuation reductions are applied to each property, the corresponding mortgage loan value is recomputed. The current conclusion is that, were this scenario to become a reality, then there would be a loss in value much lower than the existing capital held against the UK mortgage portfolio.

Dutch mortgages

The primary risk to property from climate change in Northern Europe is flooding, which has historically been a particular concern in the Netherlands, where a quarter of the country is below sea level. However, having lived with the risk of inundation for so long, Holland has developed a sophisticated risk management system.

The goal of our work in this area is to quantify the losses due to flood damage that would be experienced under different scenarios of varying likelihood. The most severe of these is the standard RCP8.5 warming scenario as specified by the Intergovernmental Panel on Climate Change (IPCC). Holland has extensive flood modelling and Rothesay has worked with Deltares, who are responsible for important parts of that modelling, to conduct this investigation using detailed flood maps from a national database called LIWO.

The most critical aspect of this work is understanding the likelihood that the largest dykes that provide Holland's primary defences will be overwhelmed. Based on prudent assumptions regarding dyke maintenance in which the government continues its rolling 50-year programme of reinforcements, we find that future flooding, even in the RCP8.5 scenario, is no more probable than it is at present. We are then left to estimate the potential losses that the Dutch mortgage portfolio would sustain each year. For each property, we use the flood model to derive the probability distribution of depth of inundation. We also need an estimate for the cost of damage caused at each depth but ironically as there have been so few Dutch floods, the available data is sparse and dated. We therefore rely more on damage functions derived from the much greater experience of flooding in the UK.

The result of our analysis is that the portfolio can be expected to experience negligible annual losses even in the severe scenario which leads to an ultimate warming of 4 degrees. The 99.5th percentile annual loss in this scenario is much smaller than the capital currently held and both these results are relatively stable in time through to 2050 so long as the government does not abandon its dyke maintenance programme.

Climate glossary

Greenhouse gas emissions
Measured in t CO_2e annually. The e is there because the number includes emissions of gases such as methane and nitrous oxide whose mass must be multiplied by a factor that accounts for the greater warming potential of those gases than carbon dioxide itself.

Carbon Intensity or CI
A measure of emissions that allows for comparison between entities of different size. It is measured in t CO_2e / million USD of revenue annually.

EPC
Energy Performance Certificate.

Scope 1 emissions
Direct emissions that occur from sources controlled by the entity in question. For example, emissions from a gas-fired boiler on company premises.

Scope 2 emissions
Indirect emissions largely associated with the purchase by the entity in question of electricity whose production has generated greenhouse gases elsewhere.

Scope 3 emissions
Emissions that are the result of activities elsewhere in the value chain of the entity in question. The Scope 3 emissions of one entity are the Scope 1 and 2 emissions of other entities. Examples include the upstream emissions associated with producing raw materials for the entity and the downstream emissions associated with using the products of the entity.

IPCC
The Intergovernmental Panel on Climate Change.

RCP
Representative concentration pathway adopted by the IPCC and used in its 2014 fifth assessment report. These are a set of climate scenarios defined by the amount of warming potential (also known as radiative forcing) produced by different concentrations of greenhouse gas accumulations. For example RCP8.5 refers to what is considered a worst case scenario in which emissions rise throughout the 21st century causing a radiative forcing of 8.5 W/m^2 which leads to a warming of about 4°C by the end of the century.

Social

Our people

The commitment and quality of our people are integral to Rothesay's success.

Due to the COVID-19 pandemic, almost all of our employees have been working from home since March 2020. Rothesay has taken measures to support our employees' health and wellbeing during this period, while also ensuring opportunities for career progression continue as normal so far as possible and that the wider culture of our business is maintained.

We have honoured all of our pre-COVID-19 job offer commitments and on-boarded many new employees remotely. At the end of 2020, Rothesay had 305 employees, including seven in Rothesay Asset Management US, an increase of 21% from 2019.

We were pleased to receive an outstanding response to our 2020 employee engagement survey, with 95% of employees participating (2019: 81%) and with 92% of employees saying that they were proud to work at Rothesay (2019: 87%).

92%
of employees proud to work at Rothesay*

* 2020 employee engagement survey

Our people
continued

Our culture and brand

As a founder-led business, Rothesay has been committed to creating a culture that actively values difference from day one. Our culture is an important part of our commercial strategy as we know it makes us a stronger, more dynamic business.

We pride ourselves on having a non-hierarchical structure which ensures that everyone is treated as an individual, whose opinion is valued and who has an opportunity to thrive in their career.

We welcome open and honest feedback from colleagues and conduct regular employee engagement surveys to measure their opinion and to hear what we can do better. In our most recent survey we were pleased to find that 86% of our employees agreed or strongly agreed with the statement "My co-workers respect my thoughts and feelings", with only 4% disagreeing.

During 2020 we updated our brand, introducing a new look and feel for the company which we believe better reflects our size along with our founding principles of meticulous attention to detail and passionate care for the pensions we protect.

We also shortened our name to simply "Rothesay" as this is how our policyholders and partners refer to us and is consistent with our heritage as a company which was purpose-built to protect pensions rather than provide other forms of life insurance.

Health and safety

The safety and wellbeing of our employees, partners, clients and visitors during these uncertain times is our first priority. Rothesay's health and safety policy is the responsibility of the Head of HR and approved by the Executive Committee. It is also published on our website and intranet.

In the 2020 employee engagement survey, 92% of our employees agreed or strongly agreed with the statement "Rothesay actively looks after the wellbeing of its employees". Health benefits include private healthcare for employees and their families, subsidised gym memberships, subsidised health assessments, free flu jabs and comprehensive online resources.

Access to mental health support and services is made available to all employees, including access to counselling services.

Accidents at work are very rare, with the last one being reported in 2017. No accident has required more than basic first aid and there has never been a need to make a submission under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

COVID-19

With people working from so many locations away from the office, a bi-weekly "alert cascade" text message is sent to all employees in order to be able to bring rapid attention to anybody who may be in difficulty.

Rothesay introduced the following special measures in response to the COVID-19 pandemic:

- Free COVID-19 PCR tests for all employees
- Redesigned office space with greater separation between employees and the installation of Perspex screens
- PPE and hand sanitiser made readily available in the office
- A grant of £1,000 for all employees to enhance their home office environment with equipment such as orthopaedic chairs and additional monitors; and
- Additional holiday allowances

Full details of our COVID-19 risk assessment and other relevant policies are also published on our intranet.

"My co-workers respect my thoughts and feelings"

Our people

continued

Engaging our employees

In 2020, we continued to focus on strengthening our internal communications capability and have redeveloped our company intranet. This has assisted in helping new hires become part of the team despite the impact of home working. We have ensured that there is regular communication from all parts of the business and that employees are also kept up to date with the business' activities via regular team meetings led by the relevant member of the Executive Committee. Town Halls for the whole company and for smaller sub-groups led by the CEO are held both ad-hoc and to mark major milestones.

An employee survey is conducted annually in an attempt to gauge job satisfaction and to understand where changes may need to be made. Summary results are made available and feedback acted upon by management with Board oversight.

Almost all of our employees have been working from home since March 2020. Pre COVID-19, flexible work time arrangements were made available on an individual request basis.

Investing in our people

In 2020 we delivered a learning and development programme, designed to support an environment where our employees can thrive and fulfil their career ambitions. With our strategic objectives and company drivers in mind, our people are encouraged to own their career development and select their learning activities from the programme which has been tailored to Rothesay's requirements. Rothesay then conducts a comprehensive annual 360-degree review process to aid the development of employees and to evaluate progress made against goals that have been set.

We continue to invest in partnerships with suppliers to deliver training and learning platforms that augment the technical skills and soft skills of our people. Much of this training has been delivered remotely during 2020 as a result of COVID-19.

All employees have access to Mind Tools, providing digital, on-demand career and management learning solutions. We are also a member of Cityparents, an award-winning network providing quality content aimed at improving work-life balance.

Rothesay supports employees in gaining a range of professional qualifications and we also sponsor a number of apprentices. We offer one-to-one coaching sessions to all employees and, twice a year, a Managers' Fundamentals Programme is held for the benefit of employees new to people management.

The rate of turnover of staff at Rothesay is below 5% per annum.

Remuneration policy

The Remuneration Committee is responsible for ensuring that Rothesay's remuneration policy appropriately rewards and incentivises our people.

Rothesay's remuneration policy is intended to:

- Promote sound and effective risk management
- Align individuals' incentives with multi-year performance
- Discourage excessive or concentrated risk-taking
- Allow Rothesay to attract and retain proven talent
- Align aggregate remuneration with the performance of Rothesay as a whole and encourage teamwork

This is achieved by ensuring that variable remuneration is linked to performance across a range of financial and non-financial metrics. The Chief Risk Officer provides input to the annual appraisal process and profit metrics are ignored when evaluating the performance of staff whose primary responsibility is the control of risk.

Considerable attention is paid to non-financial matters in assessing performance, including policyholder experience, operational risk management, compliance, conduct, teamwork and contributions to the firm's effort to combat climate change. Remuneration packages combine a base salary, cash bonuses, a long-term share-based incentive plan (the RL SIP) and a long-term share appreciation rights plan (the SARs plan).

The Remuneration Committee also retains an independent expert adviser from FIT Remuneration Consultants LLP to provide benchmarking, independent input and industry insights and who generally attends meetings.

Diversity and inclusivity

Rothesay recognises that prejudice and discrimination are still present in society today and that they have a real, damaging impact on the lives of many of our employees and customers. Racism and other forms of discrimination have no place at Rothesay.

Rothesay is committed to promoting equality and diversity, and a culture that actively values difference. We recognise that people from different backgrounds and experiences can bring valuable insights to the workplace and enhance the way we work.

During 2020, all our people received training on what it means to be an inclusive company. We continue to look at ways of identifying a more diverse range of talent for the long term and during 2020 we participated in #100 Black Interns and have partnered with SEO London, an organisation which prepares talented students from ethnic minority or low socio-economic backgrounds for career success.

We offer training and support to new parents and their managers and have recently started an initiative in which all employees taking extended parental leave are offered one-to-one coaching to support their return to work.

Gender pay gap

The table below provides a summary of our gender pay gap data:

	Mean	Median
Hourly pay	29%	32%
Bonus	50%	56%

The proportion of women on Rothesay's Board is 4 out of 12[1].

In common with many other organisations, our gender pay gap arises as a result of having a higher number of men than women in senior roles. For a more detailed discussion of this topic and information on the actions we are taking to address it, please see our separate Gender Pay Gap report.

Modern slavery

As required annually by the Modern Slavery Act 2015, on 25 September 2020 a statement was published 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. Rothesay also takes measures to ensure it is not complicit in human rights violations through its investment activities.

The statement also 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.

1 Excluding the two shareholder appointed Non-Executive Directors.

Our policyholders

Providing over 800,000 policyholders with a safe and secure pension is at the heart of what we do.

No matter how they come to us – through buy-in or buy-out, or from another insurer – it's this obligation that we prioritise above all others.

We know it's not enough to simply pay benefits. It's also vitally important to be there for our customers, especially in huge, life-event moments like retirement. That's why we seek to deliver demonstrably excellent customer service, focused on real care in every detail.

In 2020 we were re-accredited by the Pensions Administration Standards Association (PASA), an independent body dedicated to improving standards in pensions administration. We are also members of the Institute of Customer Service, an independent, professional body for customer service.

This combination of secure and certain income alongside the quality of service we provide means our policyholders and other customers can be reassured their futures are in safe hands.

30 seconds

80% of calls to our call centres are answered in 30 seconds or less

95% positive

Policyholders rating our service 'good' or 'excellent'

UK team

Every one of our call centres is based in the UK

COVID-19

Our priority throughout the COVID-19 crisis has been ensuring that we continue to provide our policyholders with the service they expect.

Our third-party administration partners quickly moved to home working for most staff and they have responded well to the crisis. The Operations team spent time with all our administrators to understand the impact of home working and other COVID-19-related constraints on their operations. By prioritising work appropriately, service levels have been met consistently throughout the crisis. Even with most staff working remotely, 80% of calls have been answered in 30 seconds or less.

Vulnerable customers

The COVID-19 crisis has meant that supporting vulnerable customers has never been more important. We are proud of the fact that we look to treat all of our policyholders as individuals and we have governance in place to help ensure we track best practice in this area. We are actively engaged with the Association of British Insurers and are a member of their Vulnerable Customers Working Group.

Our contact centre administrators are trained on how to identify and deal with vulnerable customers and over the past 12 months we have proactively supported a number of initiatives to promote better outcomes for vulnerable customers. Rothesay has also joined the Death Notification Service. This is a free customer-facing service that is intended to make the death notification process easier during a difficult time.

Enabling flexibility with small pots

In 2018, we initiated a "small pots" initiative under which pensioners with relatively small annuities (benefit value of less than £10,000) were offered a one-off opportunity to take a lump sum payment and this initiative continued throughout 2019 and into early 2020. Unfortunately, as a result of COVID-19, we decided to suspend the initiative during 2020, but we have re-started now conditions are returning to normal.

We are actively engaging with the FCA on this initiative, which is overseen by our Customer and Conduct Committee to ensure fair treatment of our customers.

Reliable service delivery

Rothesay operates an outsourcing model for pension administration and payroll services. Each of our three pension administrators – Capita, Willis Towers Watson, and Mercer – have dedicated teams who support Rothesay, with all calls and policyholder interaction carried out in the UK.

A high degree of automation and technology means that our outsourced administration platforms interact with our risk management systems to minimise discrepancies and ensure that we pay policyholders and fund our clients accurately and on time.

In the last year we have continued to invest in automation and efficiency projects to ensure we have a strong control environment to manage existing and future business without compromising our service levels and our continued commitment to our policyholders. We continue to manage the administrators through a series of proven, sound governance processes, including service level agreements which we believe are amongst the most challenging in the industry. This ensures we maintain customer service levels across case work and call handling (with 95% of targets being met). Our complaint levels continue to be low with just 0.98 complaints received per 1,000 policyholders (APM) of which only 0.42 complaints per 1,000 policyholders were upheld (APM).

Our processes follow the 'Treating Customers Fairly' principles and we also aspire to exceed the standards and guidelines set out by the Financial Conduct Authority, the Pensions Regulator and the Association of British Insurers.

Our community

Investing in the UK economy

Rothesay has invested £31.6bn (2019: £30.5bn) in helping fund projects that benefit the UK, such as transport, infrastructure, education and social housing. These activities produce income for Rothesay and concurrently offer a social benefit.

In addition, by providing funding to back equity release mortgages, Rothesay allows older people to access the equity in their homes without the need for them to move. Mortgages are written with a no negative equity guarantee which means that borrowers don't have to worry about the liability growing above the value of the house.

The Rothesay Foundation and charitable giving

During 2020, Rothesay contributed over £4.1m to charitable causes. This includes making a significant contribution to the COVID-19 Support Fund, the UK insurance industry's initiative to help some of the people hardest hit by the COVID-19 crisis.

Rothesay's chosen partner charity is Age UK, the UK's largest charity dedicated to helping everyone make the most of later life. The charity helps more than six million people every year, providing companionship, advice and support for older people who need it most. Rothesay sponsors the production of the Age UK's Bereavement guide – this is a booklet which helps the elderly overcome and understand the impact of bereavement. Whilst bereavement is not a happy topic to consider, the guide can provide critical help at a time when it is much needed.

Rothesay also supports Tax Help for Older People, a charity service providing free, independent and expert help and advice for older people on lower incomes who cannot afford to pay for professional tax advice.

Every year we choose an employee-nominated charity of the year. In 2020 our charity of the year was MIND, an organisation dedicated to ensuring that everyone experiencing a mental health problem gets support and respect.

Rothesay is a corporate partner of the British Museum and supports a number of other charities. We encourage our employees to support charities personal to them through our matched giving policy, which gives everyone an annual matched allowance of £1,000. In response to COVID-19, we introduced an additional 3-for-1 matching for donations of up to £300. We are proud that so many people have engaged in fundraising and social events designed to give back to the community.

Rothesay has invested

£31.6bn

in helping fund projects that benefit the UK in 2020

During 2020, Rothesay contributed

+£4.1m

to charitable causes

The Rothesay Foundation

During 2019 Rothesay established the Rothesay Foundation to support charities that seek to improve the quality of life for older people, helping them to live their lives in a happy, safe and fulfilling way. In 2020 Rothesay provided £2.5m to the Foundation and grants have been provided to a number of charities, including:

- **Goodgym** – a community of runners that combine getting fit with doing good. They stop off on their runs to do physical tasks for community organisations and to support isolated older people with social visits and one-off tasks they can't do on their own.
- **SafeLives** – a charity dedicated to ending domestic abuse, where the Rothesay Foundation and SafeLives are considering the development of a programme focusing specifically on the issue of domestic abuse in older people.
- **Food Train** – a charity dedicated to making daily life easier for older people, providing vital services to those who are no longer able to manage independently, due to age, ill health, frailty or disability. Food Train makes hundreds of grocery deliveries every week, ensuring those most in need have access to fresh groceries.

Associations and memberships

Rothesay is a member of a number of industry associations. These include the Association of British Insurers (ABI), the Confederation of British Industry, the Investment Association, UK Finance and the British Property Federation.

We support our associations in a number of ways, including attending and leading various committees and participating in relevant consultations and policy reviews. Our CEO also sits on the Board of the ABI and its climate change subgroup.

Taxation

Rothesay's tax strategy is designed to ensure compliance with the tax laws of those countries in which Rothesay operates (primarily the UK). Any tax planning undertaken has commercial and economic substance and has regard to Rothesay's corporate responsibilities and brand and the potential impact on shareholders, policyholders and other stakeholders.

We do not undertake planning that is contrived or artificial. Rothesay has zero tolerance for tax evasion of any kind.

Rothesay makes a significant tax contribution in the UK, with £459m remitted to UK tax authorities in 2020 (2019: £223m). Rothesay had an effective corporation tax rate of 18.8% during 2020 (2019: 19.3%). Other taxes include property taxes, employer payroll taxes and irrecoverable indirect taxes.

Taxes paid	**2020 £m**	2019 £m
Corporation tax	**295**	59
Other taxes	**13**	12
Taxes collected	**151**	152
Total remitted	**459**	223

Governance

Our Board

The Board, together with management, is responsible for ensuring the security of our policyholders' pensions as well as generating and delivering sustainable shareholder value through the management of Rothesay's business.

Structure and composition

A strong Board with an effective committee structure facilitates the governance framework of Rothesay. Our Board remains highly engaged: the continuing development of the full internal model, the COVID-19 crisis, the volume of new business and the change in ownership of Rothesay necessitated a number of additional Board meetings throughout 2020 and the level of attendance and contributions was high.

The Board has a majority of independent Non-Executive Directors along with representatives from Rothesay's two shareholders. Its composition is regularly reviewed to ensure a diverse range of relevant experience and skills and as part of appropriate succession planning. Appointed in 2021, Jane Hanson, Ed Giera and Heather Jackson are the most recent independent Non-Executive Directors to join the Board and further strengthen its knowledge and experience.

How the Board operates

The Board is led by the Chairman, Naguib Kheraj. Naguib was appointed to the Board on 1 October 2014 and became Chairman on 18 December 2017.

Day-to-day management of Rothesay is led by Addy Loudiadis, the Chief Executive Officer, and Tom Pearce, the Managing Director.

The Board has responsibility to shareholders, policyholders, the regulators, employees and other stakeholders for the overall performance of Rothesay. The Board's role is to provide oversight and direction to the senior management team and to ensure that there is an appropriate risk and control framework for Rothesay.

The Board has a schedule of matters reserved for its consideration and approval, including:

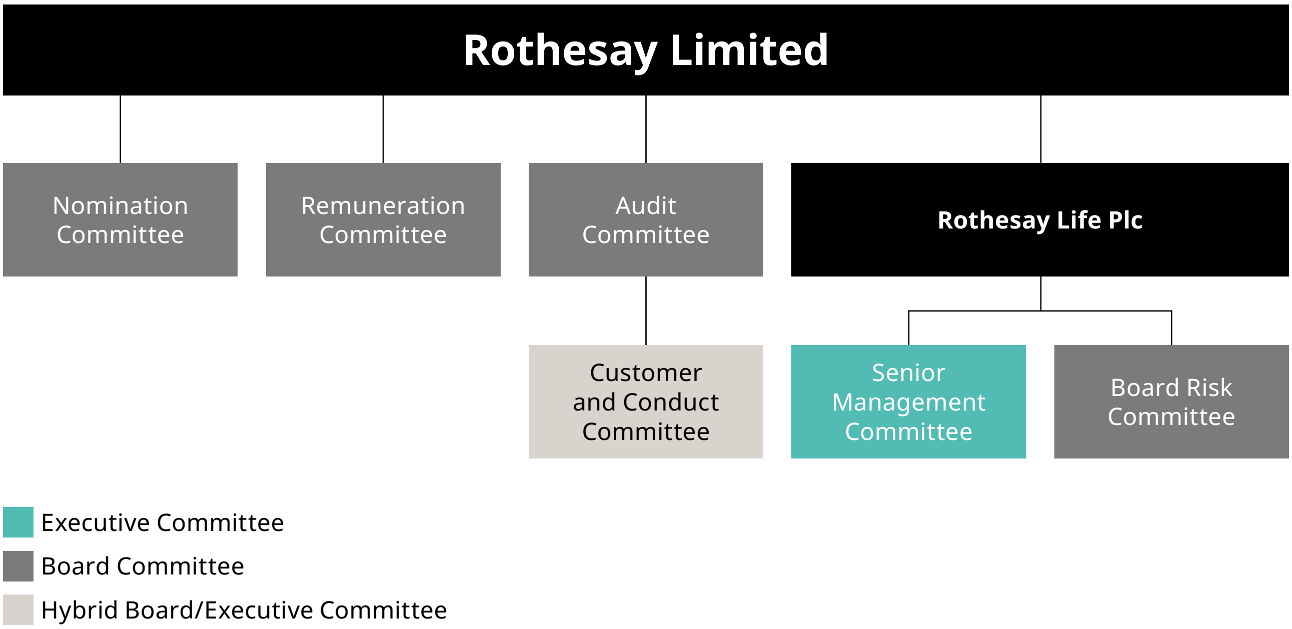
- Strategy and business plans
- Material new investments and new insurance transactions
- Acquisitions and disposals
- The constitution of Board Committees
- Capital management policy including dividend policy
- Other key Rothesay policies

The Board is supported by the Audit Committee, the Board Risk Committee, the Remuneration Committee and the Nomination Committee.
Terms of reference for these Committees can be found at:

rothesay.com

Our Board
continued

The Rothesay Committee structure is shown below:



Corporate governance highlights

Highlights of corporate governance activity conducted by the Board in 2020 include:

- Review and approval of the changes required as a result of the acquisition of Blackstone's shares by GIC and MassMutual
- Review and approval of the Group's commitments in relation to climate change
- Review and approval of the larger new bulk annuity and longevity reinsurance contracts
- Review and approval of the issuance of Tier 3 bonds by RLP and of the repayment of the £100m floating rate bond
- Review and approval of the new Rothesay branding
- Review of the results of the 2020 employee engagement survey and discussion of management's planned response

Controls and risk management

Categories of risk and key controls

Rothesay's risks are grouped into one of six categories: strategy, insurance, market, credit, operational and liquidity risk.

Rothesay has developed appropriate processes and documented procedures, appropriate controls and other risk mitigation techniques in order to manage them effectively. A policy framework ensures that an appropriate suite of risk management policies is maintained which set out the principles and standards for risk identification, measurement, mitigation, control and monitoring.

Governance

Rothesay's governance structure means that decisions can be made quickly and efficiently whilst ensuring that there is robust oversight. The Board of Rothesay, together with management, are responsible for ensuring the security of our obligations to our policyholders and generating and delivering sustainable shareholder value through the management of Rothesay's business. We believe that the system of governance continues to be appropriate given the nature, scale and complexity of the risk inherent in the business.

Committee membership

To ensure fully independent oversight, the Board Risk Committee and Audit Committee are composed of only independent Non-Executive Directors. Membership of all the Committees is shown in the table below:

	Board Risk Committee	Audit Committee	Nomination Committee	Remuneration Committee
Chair	Stan Beckers	Bill Robertson	Naguib Kheraj	Naguib Kheraj
INED members	Naguib Kheraj Ed Giera Ray King Charles Pickup Bill Robertson	Ed Giera Jane Hanson Ray King Terry Miller Charles Pickup	Ray King Terry Miller Charles Pickup	Stan Beckers Terry Miller
Shareholder Director members			Tim Corbett Robin Jarratt	Tim Corbett Robin Jarratt

Terms of reference for the Committees can be found at www.rothesay.com/about-us/governance.

Audit Committee

The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes and the Group's process for monitoring compliance with laws and regulations and the business principles. The Committee also receives reports from the Customer and Conduct Committee.

The Committee is composed of only independent Non-Executive Directors with an appropriate mix of expertise and experience.

Board Risk Committee

The Board Risk Committee's primary responsibilities are the ongoing monitoring and control of all risks associated with the activities of Rothesay, within the parameters set by the Board and as set out in the risk and investment policies of Rothesay.

The Committee has only independent Non-Executive Directors with an appropriate mix of expertise and experience.

The Committee is also responsible for the oversight of the executive-level Working Level Risk Committee (WLRC), and its sub-committees, which are responsible for the ongoing monitoring and control of all financial risks, insurance risks and operational risks associated with the activities of the Group. The WLRC has fifteen members and is chaired by the Chief Risk Officer.

Controls and risk management

continued

Remuneration Committee

The Committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of Rothesay and for reviewing compliance with the policy in so far as it relates to senior managers and other employees. Further details of Rothesay's remuneration policy can be found in the 'Our people' section of this report.

The Committee is composed solely of Non-Executive Directors with an appropriate mix of expertise and experience. Membership includes representation from Rothesay's two shareholders, facilitating the alignment of long-term interests. The independent Non-Executive Directors form a majority.

Nomination Committee

The Committee is responsible for monitoring the balance of skills, knowledge, experience, independence and diversity on the Board, identifying and recommending Board, Board Committee and senior management appointments to the Boards of the various Rothesay Group entities as appropriate, and monitoring succession plans for the Executive Directors and the development plans of senior management within Rothesay.

The responsibilities of the Committee include reviewing the structure, size and composition of the Board of Directors, identifying and nominating candidates to fill Board vacancies, as and when they arise, and approving senior management appointments.

The Committee is composed of Non-Executive Directors with an appropriate mix of expertise and experience. Membership includes representation from Rothesay's two shareholders in order to ensure that decisions about senior appointments have their support.

Customer and Conduct Committee

The Customer and Conduct Committee is responsible for ensuring that customers, clients and counterparties are treated fairly by Rothesay and its strategic business partners. The Committee also oversees Rothesay's approach to regulatory conduct. The duties and responsibilities of the Customer and Conduct Committee include:

- Ensuring adherence to the FCA Treating Customers Fairly outcomes
- Identifying and considering wholesale conduct risks and market integrity issues arising from Rothesay's investment strategy
- Reviewing Rothesay's management and measurement of conduct risks
- Overseeing Rothesay's response to policyholder complaints

The Committee is composed of fifteen members and is chaired by Terry Miller, an independent Non-Executive Director.

Senior Management Committee

The Senior Management Committee is chaired by the Chief Executive Officer of Rothesay and its membership includes senior members of appropriate business and control units. The Committee has been delegated by the Boards of Rothesay the powers of day-to-day oversight and management of the business and affairs of Rothesay, subject to any specific matters reserved for consideration by either of the Boards of Rothesay. The Committee is accountable for business standards and practices, including risk management.

Regulators

Rothesay is regulated by the Financial Conduct Authority and by the Prudential Regulation Authority. We endeavour to engage with each of them in an open, cooperative and timely fashion.

Countering financial crime, corruption and money laundering

The Group is committed to complying with all applicable laws and regulations relating to combating money laundering, terrorist financing and other financial crimes. The Group has various policies and procedures associated with aspects of financial crime and the overall financial crime policy is reviewed on a regular basis, including an annual risk assessment, and is approved by the Board.

The approach towards financial crime and money laundering is under the control of a dedicated team in Compliance, working under the oversight of the UK Head of Compliance who is also the Money Laundering Reporting Officer (MLRO). The MLRO reports on financial crime matters to the Board on an annual basis and the regular reporting to the Board and other committees routinely includes management information on financial crime matters and issues.

Rothesay has a risk-based approach to preventing financial crime with a greater focus on unregulated entities and entities from developing regions and economies. That risk-based approach is demonstrated in the degree of diligence that is undertaken towards anti-money laundering and Know Your Customer risks and procedures with, for example, more extensive and frequent diligence undertaken for an unregulated entity from a non-G7 country, compared to a UK-regulated financial institution. However, all counterparties, vendors and other parties with whom Rothesay may interact undergo some degree of diligence. That diligence addresses various matters including, where relevant:

- Who the ultimate business owner(s) may be and any link to any sanctions nexus
- The source of wealth and any negative news about the counterparty
- Any involvement of PEPs
- The use of any proceeds
- The presence of relevant policies within the counterparty
- The use of intermediaries and how Rothesay became involved in a project and/or proposal

The Group is a supporter of the Wolfsburg questionnaire/standards and the Group uses various tools to help assess its approach to financial crime including external data sources and daily screening of payments and accounts against current sanctions lists.

All senior management in Rothesay have an obligation to take reasonable steps to try and ensure that their business areas operate appropriately and that is cascaded down from the Board through to individual employees and contractors. Adherence to the Group's standards and expectations is regularly assessed and awareness is fostered and developed through regular training, often involving external specialists, on the following topics:

- Anti-money laundering and Know Your Customer obligations
- The 13 Compliance standards in the Compliance Manual including specific standards with respect to financial crime and abiding by proper standards of market conduct
- Conflicts of interest
- Market abuse
- Personal compliance obligations in relation to whistleblowing/speaking up, gifts and entertainment, personal account dealing and outside business interests. Discussions and training on personal obligations also focus on the conduct rules that apply to all employees

Whistleblowing

It is important that Rothesay maintains a culture where all employees feel they can speak up if they believe that something is not right. Where people may not feel comfortable raising concerns directly with their management, HR or Compliance, other avenues for whistleblowing are made available as part of the employee conduct policy. This includes a dedicated and anonymous whistleblowing hotline under the control of a whistleblowing champion who is also an independent Non-Executive Director on the Board.

Lobbying and government relations

Rothesay is politically neutral and does not engage in party political campaigning or make party political donations as a company.

Rothesay actively monitors the political landscape on issues relevant to our business, policyholders and people. Where appropriate, Rothesay engages with policymakers, or responds to consultations, which may directly impact our business. We ensure that any communication undertaken is honest, comprehensive and accurate.

We are committed to being transparent in our government relations activity and where Rothesay retains the services of public affairs agencies we expect them to adhere to relevant codes of ethical practice as well. The Head of Communications and Public Affairs is responsible for oversight of Rothesay's public affairs agencies and coordination of our public policy work.

Our investors

Shareholders

In November 2020, two of our existing shareholders, GIC and MassMutual, substantially increased their investment in Rothesay by acquiring Blackstone's 35% shareholding.

This was a strong expression of confidence in Rothesay and provides the business with exceptional long-term support from two of the world's leading institutional investors and a stable platform for growth in the future.

Following the transaction, GIC and MassMutual each hold 49% of Rothesay Limited with the remainder being held by the Employee Benefit Trust, management and staff. Each of the shareholders has the right to appoint two Non-Executive Directors, with each having appointed one to date.

The shareholder Directors attend Board and other Board Committee meetings, providing an important contribution to the effectiveness of the Board and to the overall performance of Rothesay. The shareholders receive regular management information and their teams also interact directly with management. Going forward, it is also anticipated that members of the teams will attend relevant parts of Board and other Board Committee meetings as observers.

The shareholders also support Rothesay in other ways, for example assisting in the sourcing and evaluation of investments, providing debt financing and providing longevity reinsurance.

GIC

GIC is a leading global investment firm established in 1981 to manage Singapore's foreign reserves. A disciplined long-term value investor, GIC is uniquely positioned for investments across a wide range of asset classes, including equities, fixed income, private equity, real estate and infrastructure. GIC invests through funds and directly in companies, partnering with its fund managers and management teams to help world-class businesses achieve their objectives. GIC has investments in over 40 countries and has been investing in emerging markets for more than two decades. Headquartered in Singapore, GIC employs over 1,700 people across 10 offices in key financial cities worldwide.

For more information about GIC, please visit: gic.com.sg

MassMutual

MassMutual is a leading mutual life insurance company that is run for the benefit of its members and participating policyowners. Founded in 1851, the company has been continually guided by one consistent purpose: helping people secure their future and protect the ones they love. With a focus on delivering long-term value, MassMutual offers a wide range of protection, accumulation, wealth management and retirement products and services.

For more information about MassMutual, please visit: massmutual.com

Bondholders

Senior management meet with debt investors on a regular basis and make presentations to groups of investors and analysts. Rothesay also has a regular dialogue with its relationship banks.

Credit rating agencies

Rothesay's life company has credit ratings from Moody's Investors Service and Fitch Ratings and Rothesay's outstanding public bonds have all been rated by Fitch Ratings. Rothesay meets with the ratings agencies at least once per year and updates them on material events.

- **Rothesay Life Plc** is rated A+ (Strong) for the Fitch Insurer Financial Strength Rating, and A3 for the Moody's Insurance Financial Strength Rating.
- **Rothesay Limited**, the Group's ultimate holding company, is rated A for the Fitch Long-Term Issuer Default Rating and Baa2 for the Moody's Issuer Rating.

A+

Rothesay Life Plc is rated A+ (Strong) for the Fitch Insurer Financial Strength Rating

Disclaimer

Certain information contained in this Report, including any information as to Rothesay's ESG and business strategy, plans or future financial or operating performance constitutes "forward-looking statements". Forward-looking statements appear in a number of places throughout this Report and include, but are not limited to, express or implied statements relating to Rothesay's ESG and business strategy and outlook, future financial and market positions and prospects, expectations as to Rothesay's ESG, business and investment activities, general trends in the industry in which Rothesay operates and the impact or potential impact of laws and regulations on Rothesay, its business operations and investments. Such forward-looking statements are typically accompanied by the words "believe", "project", "expect", "anticipate", "estimate", "intend", "strategy", "plan", "may", "should", "will", "would", "will be", "will continue", "will likely result" or similar expressions and the negatives of those terms (although not all forward-looking statements contain these identifying words).

By their nature, forward-looking statements are based upon estimates and assumptions that, whilst considered reasonable by the Rothesay, are inherently subject to significant business, economic and legal uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those indicated, expressed or implied in such forward-looking statements.

Forward-looking statements are not guarantees of future performance or future actions. Any forward-looking statements in this Report reflect Rothesay's current view with respect to future events and are subject to certain risks relating to future events and other risks, uncertainties and assumptions

The forward-looking statements contained in this Report reflect knowledge and information available as of the date of preparation of this Report. Rothesay expressly disclaims any obligations or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation.

Neither the content of Rothesay's website nor the content of any other website accessible from hyperlinks on Rothesay's website is incorporated into, or forms part of, this Report.

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