Rothesay

Responsible Investment and Stewardship Policy

Rothesay - External

2024

Contents

I. Purpose and objectives

About Rothesay

Rothesay is one of the UK's largest specialist pensions insurers, purpose-built to protect pension schemes and their members' pensions. Our singular focus is to secure pension annuities for the future, providing certainty as well as genuine service excellence for all our policyholders. Our investments target high quality investment grade debt and direct loans, in developed countries, and all investments are managed in-house. As a pension insurer, we may receive assets as part of a pension risk transfer transaction. On receipt of these positions, the assets are managed according to the same principles and processes as the investments we originate.

Document Philosophy

This Responsible Investment and Stewardship Policy confirms Rothesay's commitment to implementing responsible investment objectives and stewardship decisions within our investment decision-making.

Rothesay aligns with The United Nations backed Principles for Responsible Investment's ("UNPRI") responsible investment definition which deems it "the integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance." This policy describes Rothesay's approach to the integration of ESG and sustainability considerations within our investment and lending decisions aligned with the UNPRI Principles.

We use term Stewardship as defined by the Financial Reporting Council (FRC), that being "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

Rothesay is dedicated to protecting the pensions of our policyholders. Due to the long-term nature of the pensions we protect, the successful measurement and management of sustainability risks within our investment portfolio is a fundamental part of our commitment to our policyholders to secure their future.

Rothesay's investment decision-making seeks to take a quantitative view of risk where possible and invest in a manner that maximises policyholder security and enhances shareholder value on a risk-adjusted basis. A key part of this approach is the identification, assessment and monitoring of financially material sustainability risks and opportunities.

Rothesay recognises that, in managing sustainability risks, we must consider the impacts of sustainability risks through our investment portfolio, as well as the direct impacts of our own operations. This policy therefore mandates consideration of both these aspects in our portfolio management. Rothesay's approach is focused on real-world impact and supporting the transition to a low carbon economy in a sustainable, risk-focused manner. Engagement with issuers who are misaligned with this objective is a central part of our strategy. As a UNPRI and Net Zero Asset Owners Alliance ("NZAOA") signatory, Rothesay is committed to fostering knowledge-sharing and supporting both national and international efforts towards transitioning to Net Zero. To maintain transparency and meet stakeholder expectations, Rothesay reports on its progress against its sustainability objectives on an annual basis, including publishing Climate and Sustainability reports.

II. Application

This policy applies to all Rothesay employees, but especially to those involved in the assessment and execution of investment and lending opportunities. The Chief Risk Officer ("CRO") is the owner of this policy and is accountable for ensuring the implementation of the requirements within it.

Scope

This policy applies across all asset classes and geographies in which we invest and provides guidance to investment and risk teams for implementing our general investment objectives, which are defined as:

- **Policyholder Security**: To ensure that liabilities to policyholders can be met in full and in a timely manner via conservative balance sheet and liquidity management.
- **Balance Sheet Stability**: To maintain financial strength and solvency capitalisation to produce stable cashflows from in-force business.
- **Value-driven Investment**: To take a quantitative view of risk where possible and invest in a manner that enhances shareholder value on a risk-adjusted basis.
- **Focus on Asset-Liability Management**: To invest assets in a manner appropriate to the nature of the policyholder liabilities to reduce risk exposure and to take advantage of illiquidity premium.
- **Appropriate Governance**: To ensure that the governance process implements Rothesay's investment principles and appropriately takes into account factors that are harder to quantify such as sustainability and reputational risks.

The inclusion of sustainability within our investment decision-making supports these objectives by considering material risks and opportunities across our asset classes to drive policyholder security, balance sheet stability and value-driven investment, as well as ensuring that we meet our sustainability, including climate commitments.

Alongside the inclusion of sustainability within our investment decision-making, Rothesay ensures that conflicts of interest that may arise as a result are identified and managed in line with our internal policies, procedures and guidelines relating to conflicts of interest. This policy informs and is reflected in our Board Risk Appetite statements and all relevant internal policies.

Market practice, regulatory expectations, and policy, as well as our commitments to sustainability-related initiatives, are evolving rapidly and therefore this policy will continue to evolve alongside these changing expectations. It will be regularly reviewed and presented at least annually for approval by the Board.

Roles & Responsibilities

The CRO is ultimately accountable for ensuring the implementation of the requirements within this policy, including our sustainability commitments. The responsibility for the day-to-day activities related to these commitments has been delegated to the Sustainability Committee (SC) as the forum responsible for the development and oversight of Rothesay's sustainability objectives.

The ESG team are responsible for maintaining this policy and ensuring it remains in line with our sustainability risk management framework. The ESG, Trading, Investment and Credit Risk Teams are responsible for delivering the practices and processes developed by the SC and the requirements laid out within this policy.

Sustainability Screening of Liability Side Transactions

Our transactions with pension scheme trustees, and the transfer of assets and liabilities as part of those transactions, are central to Rothesay's business model. Before offering to transact with pension scheme trustees, we consider sustainability criteria, including both the current and former operations of the scheme sponsor, and factors such as the suitability of the product. Our overarching view is that people deserve a safe and secure income in retirement and consequently there are only a relatively limited number of situations where sustainability considerations relating to the sponsor itself should prevent us from securing the benefits of former employees of a company.

III. Responsible Investment Framework

Sustainability Commitments

Rothesay's Pathway to Net Zero plan includes the following sustainability Commitments that reflect our objectives for the integration of sustainability within our investment decision-making and risk management framework, as well as our wider investment strategy:

1. We will (i) transition our investment portfolios to Net Zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures, and (ii) regularly report on progress, including establishing intermediate targets every five years in line with the Paris Agreement Article 4.9.
2. To track our progress towards this net zero target we have also committed to a:
    a. 20% reduction in the Carbon Intensity of our publicly traded corporate debt (PTCD) portfolio by 2025 over the five years beginning with the baseline set in 2020.
    b. 20% reduction in the Carbon Intensity of our total portfolio by 2025 over the five years beginning with the baseline set in 2020.
    c. 50% reduction in the Carbon Intensity of our PTCD portfolio by 2030, vs the same baseline as above.
    d. 50% reduction in the Carbon Intensity of our total portfolio by 2030, vs the same baseline as above.
3. We actively seek out opportunities to match our long-term investment horizon with investments that support our sustainability risk strategy.
4. While investments in some climate opportunities are currently too speculative for our risk appetite, we are committed to supporting efforts to encourage low carbon opportunities and financing climate solutions.
5. We will incorporate broader sustainability factors into our investment analysis, decision-making and engagement processes to appropriately consider Social & Governance and wider Environmental factors, as well as climate change.
6. We recognise the investment required by high emitters to transition to a low carbon future and will finance companies with robust and credible transition plans, recognising that this may increase our Carbon Intensity in the short term.
7. We actively seek to engage with issuers currently misaligned with our commitments, rather than pursue immediate divestment. This includes engaging with at least 20 of our most carbon intensive issuers within our corporate portfolio. This helps support real-world impact and encourage issuer reduction activity, as we look to reduce our portfolio's Carbon Intensity over the longer term.

As a member of both the UN-convened Net-Zero Asset Owner Alliance (NZAOA) and the UN Principles for Responsible Investment (UNPRI), Rothesay is committed to fostering knowledge-sharing and supporting both national and international efforts towards transitioning to Net Zero.

UN-convened Net-Zero Asset Owner Alliance

The UN-convened Net Zero Asset Owner Alliance (NZAOA) is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C. As a member, we are an active participant on several NZAOA-convened working groups and disclose our progress against our climate commitments to this initiative on an annual basis.

UN Principles for Responsible Investment:

The UN PRI is the world's leading proponent of responsible investment, and it works to understand the investment implications of ESG factors. We align with the PRI's six principles for responsible investment:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4: We will promote acceptance and implementation of PRI within the investment industry.
Principle 5: We will work together to enhance our effectiveness in implementing PRI.
Principle 6: We will report on our activities and progress towards implementing PRI.

In 2023, we reported to the PRI for the first time in line with expectations as a signatory.

Sustainability Integration

ESG refers to a broad range of factors that may on their own, or in combination, influence the risk/return characteristics of our investments. As part of our investment and lending decisions, we will consider those factors that are material from a risk perspective. To aid the investigation of these issues, Rothesay utilise third-party data sources including ESG data from MSCI and carbon emission data provided by Bloomberg.

Rothesay benefits from directly managing our investments, allowing a detailed approach to managing sustainability and climate risk. This process is assisted by Rothesay's ESG team, including dedicated ESG analysts, who support the analysis of climate issues and facilitate the embedding of climate-related considerations across the business. The ESG team is also responsible for monitoring and updating this policy.

Rothesay's approach to the integration of sustainability factors within our investment decision-making is to focus on financing the transition to net zero by investing in entities with clear transition plans and which are instrumental in effecting real world emission reductions. As part of this, we prioritise engagement with issuers and investment selection, rather than pursuing an immediate divestment strategy.

Our risk-based approach requires the application of clear risk management frameworks at point of purchase or acquisition via pension risk transfers, and through the duration of the investment. The treatment of sustainability risk has been specifically embedded within existing frameworks, with heightened scrutiny triggered as sustainability risk increases. Strategies such as shorter duration and liquid investment may be considered for higher risk issuers to ensure we retain more flexibility to manage risk in these circumstances (through divestment or otherwise).

As part of our sustainability analysis we have also developed climate screening to identify entities with material climate risk. These entities are subject to more detailed analysis, at point of purchase and through the investment duration, including annual issuer performance and sector deep dives, and assigned scores. The scores reflect factors such as current emissions and sector challenges, overlaying issuer responses in terms of targets, track record and progress towards green technology. Greatest caution is applied to entities with high coal exposure, and there is limited appetite for single asset fossil fuel investment.

In addition, our sustainability framework also screens for controversial products, defined as activities/products that are deemed as having greater levels of associated sustainability risks based on their perception and/or impacts. Material Social and Governance factors are also considered as part of our investment process, including wider sustainability risks, such as bribery and corruption and impacts on community, labour rights and biodiversity.

While we have no formal targets at this stage, we also monitor opportunities that meet our definition of Climate Opportunities or Sustainable Investments and actively seek to support sectors which provide wider social benefits. We have material investments in sectors such as social housing, higher education, US non-profit healthcare and UK infrastructure.

We are conscious of the importance of supporting a 'just transition'. This reflects the need for low carbon transition to occur whilst minimising the negative societal impacts of this change. This means the consideration of appropriate climate investment decisions cannot be made without considering wider sustainability risks, such as impact on employment, community disruption and company oversight. Early transparency on transition plans increases credibility around climate risk management and allows more time for companies to manage employees and community impacts, and our engagement encourages these outcomes.

Point of Purchase

Initial trade screening identifies issuers that are exposed to material sustainability or climate risks. Our climate score creates a consistent way to assess an issuer's climate risk, allow comparability between issuers and to trigger additional governance at point of trade. This includes the mandatory calculation of Carbon Intensity for material climate issuers, including the creation of estimated emissions where reported data is not available.

In addition, our controversial activity screening and broader sustainability factor analysis supports the identification of heightened sustainability or climate risk. This ensures any sustainability concerns and opportunities are subject to detailed analysis at the point of purchase and higher risk proposals can be flagged, considering the nature of the underlying investments, as well as factors such as liquidity and duration. Rothesay has limited appetite for high coal, illiquid exposure or fossil fuel backed single assets and investments with these characteristics will require greater governance.

For illiquid assets and where Rothesay funds the origination of mortgages in the UK, consideration will be given to physical climate risks and energy efficiency where relevant and will typically be captured within the underwriting criteria (mortgage portfolio) and/or investment guidelines (e.g. for commercial real estate). For any internally rated assets, the sustainability risk material to the credit is expected to be captured in the initial internal credit rating. Where additional trade approval process is undertaken, the investment memorandum must have a sustainability section, including, in the case of climate material and sustainable bond transactions, a table detailing the relevant considerations.

Ongoing Performance Surveillance

Annual sector deep dives are undertaken to monitor the most material sustainability considerations for relevant industries. This analysis also supports identification of leaders and laggards within sectors, considers individual performance over time, and identifies areas for engagement, or changes in investment appetite for further discussion. In addition, we are alert to news flow concerning sustainability issues at borrower entities and will adjust our risk position according to the severity of any perceived impact to creditworthiness, reputation, or other relevant characteristic. The assessment of relevant sustainability factors also forms part of the credit due diligence process for limit increase requests for existing issuers.

We manage our portfolio exposure to climate risk with reference to quantitative indices (e.g. the Carbon Intensity of the portfolio) and monitor portfolio, sector, and individual issuer levels. We also manage our climate risk exposure at the issuer level by assessing ongoing developments in their climate risk management strategy and performance against target metrics, including Carbon Intensity and emissions reductions. This aligns the risk management of our investments for the benefit of our policyholders, with real-world decarbonisation.

The Climate score for issuers will be regularly updated to reflect issuers current sustainability & climate commitments as well as performance against these targets. This classification will also support our understanding of the level of climate risk within portfolio, by analysing the distribution of issuers allocated each climate score. As part of our standard credit assessment processes, we ensure that sustainability driven events which may result in a credit rating change are assessed by analysts to understand any potential impacts.

Where Rothesay funds the origination of mortgages in the UK, our lending criteria specify the type of properties that are acceptable and including factors such as construction, EPC rating, location, and environmental perils such as flood risk. Our lending criteria are reviewed on at least an annual basis and approved by the Mortgage Steering Committee.

For illiquid assets, we apply a risk-based approach with regular bespoke stresses for the various portfolio type depending on the perils assessed as most relevant. For internally rated assets, any sustainability risk material to the credit risk arising during the life of the transaction is also expected to be captured during the review of the internal credit rating assessment.

Scenario Analysis

Climate stress testing is an important and evolving component of Rothesay's risk management framework. Rothesay uses climate scenarios to explore, understand and model how physical climate change and the transition to a low carbon economy could affect the future value of our asset portfolio.

We utilise several scenarios as the foundation for our climate scenario analysis. Each of the scenarios represents a different possible climate future over a 30-year horizon, encompassing the global energy system, economy, and physical environment. This allows us to identify opportunities and vulnerabilities under different climate outcomes across our portfolio, across a range of different scenarios, given the inherent uncertainty around how the decarbonisation of the global economy will ultimately play out.

We assess our portfolio against these scenarios by translating changes in the energy system, economy and physical impact into impacts on asset values drawing on selected data provided by Planetrics[1], a granular bottom-up climate scenario model. Planetrics modelling considers a range of physical and transition risks, which are disaggregated into impact channels. This is supplemented with internal modelling across our property portfolio. Further information can be found in our latest Climate report.

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

IV. Position Statements

As outlined, Rothesay's responsible investment and stewardship strategy takes a case-by-case risk-based analysis approach. This involves considering the individual characteristics of our investments, including climate factors, to support appropriate decision making. Driven by this risk-based assessment, there are several areas, relating to thermal coal and defence activities, where we have explicit exclusions in relation to our investment appetite. The below sections outline the rationale for these exclusions in more detail.

We note that sustainability risk management is evolving rapidly, so our strategy will continue to develop to ensure we protect our policyholders and manage to our long term sustainability and climate commitments.

Scope

Our position statements cover all activity relating to our investment portfolio.[2]

Coal Position

Background and Rationale for Position

- As part of our Net Zero strategy, Rothesay aligns with the UN's scientific view that long-term involvement of coal within the global energy mix is incompatible with commitments made under Paris Agreement, and therefore Rothesay's climate commitments.
- Thermal coal within power generation is responsible for two-thirds of energy sector emissions. Therefore, the transition from thermal coal within energy mix is fundamental to decarbonisation and to meeting net zero commitments. This essential transition increases policy and stranded asset risk, as well as wider sentiment risks.
- Unless explicitly outlined, the below position relates only to thermal coal. Metallurgical coal operations (which can have thermal coal production as a by-product) remain well-supported by industry due to their critical role in iron and steel production, with limited low-carbon alternatives currently available. Whilst Rothesay acknowledges the need for this activity to transition, the timelines to achieve decarbonisation will be longer.
- We acknowledge the interconnectivity of sustainability issues relating to activities such as reduction in coal production. For example, the social impacts of plant closures on employment and area prosperity. Those issuers with strong governance are also more likely to have resilient plans in place to manage their transition. We seek to understand, through analysis and issuer engagement, an issuer's coal exit plans and expect to provide greater support to those with clear closure dates and consideration of employee redeployment.
- Rothesay screens the portfolio and any new investments using a third-party service provider to support exclusions in line with the following thermal coal criteria.

[2] Please refer to the Implementation Section of this policy for further details.

Position Statement

- Rothesay does not knowingly support the financing of any new direct thermal coal activity, including funding of new thermal coal plants or continuation with plans in preconstruction.
- Where issuers have thermal coal exposure, we actively target those with clear plans to have minimal coal exposure by the commonly accepted coal exit timeframes of 2030 in OECD countries.
- Where an entity has indirect exposure to thermal coal, for example a purely metallurgical coal extraction company which has thermal coal as a by-product, additional review will be undertaken to understand whether the materiality of their exposure warrants an exclusion.
- We engage with higher coal exposed entities to actively promote coal exit plans in line with outlined expectations on a regular basis.
- Continued inclusion of an issuer in our portfolio depends upon their engagement response and development of these clear targets to support the required reduction in coal exposure.

Oil & Gas

Background and Rationale for Position

As part of our Net Zero strategy, Rothesay aligns with the UN's scientific view that ongoing expansion of unabated oil & gas capacity is incompatible with commitments made under Paris Agreement, and therefore Rothesay's climate commitments.

- This view is guided by the IPCCs low/no overshoot scenarios and the IEA net zero roadmap which demonstrate the potential to achieve 1.5 degrees and meet energy security and require very limited new investment in O&G infrastructure.
- In particular, oil and gas infrastructure projects (e.g. extraction facilities, pipelines, terminals, and storage) must be approached with heightened and ever-increasing caution and scrutiny.
- We acknowledge the interconnectivity of sustainability issues relating to activities such as reduction in oil & gas activities as well as considerations of energy security. As part of our oil & gas position, we seek to understand, through analysis and issuer engagement, an issuers or project's transition plans to determine alignment with 1.5C aligned world.
- Rothesay screens the portfolio and any new investments using a third-party service provider to support exclusions in line with the following oil and gas criteria.

Position Statement

- Rothesay does not knowingly invest in companies that derive more than 10% of their revenue from the production of arctic oil & gas or tar sand extraction, recognising these activities have an acute impact on the environment.

Controversial Weapons

Background and Rationale for Position

- Although there is no nationally or internationally agreed definition of “controversial weapons”, they are generally understood to be those weapons that have an indiscriminate and disproportionate humanitarian impact on civilian populations.
- Several international conventions and treaties have been adopted by countries to prohibit the use and availability of controversial weapons. These include the use of cluster munitions, biological weapons, antipersonnel landmines and booby traps, chemical weapons, and nuclear weapons.
- Based on their impact, in various jurisdictions the financing of such weapons is prohibited by national legislation and therefore screening, and where appropriate exclusion of financing of certain weapons is necessary to meet our responsible investment objectives.
- Whilst included in definitions for controversial weapons, our position statement does not exclude nuclear weapons. Our approach is aligned with the Non-Proliferation of Nuclear Weapons (1968) legislation, which does not prohibit their use within ‘nuclear weapon states’.
- This exclusion reflects the Board’s support for International Conventions on controversial weapons, and recognition of the reputational impact associated with investing in these companies.
- Rothesay screens the portfolio and any new investments using a third-party service provider to support exclusions in line with the following definition of “controversial weapons”.

Position Statement

Rothesay considers, in line with the UN convention on certain Conventional weapons, the following sub-set of weapons to be “controversial weapons”:

a) Cluster weapons

b) Mines and Booby Traps

c) Biological weapons

d) Chemical weapons

Rothesay will not knowingly finance any company where:

such company is involved in the production, selling and/or distribution of (parts for) controversial weapons; AND

where such involvement concerns the core weapon system, or components/services of the core weapon system that are tailor-made and essential for the lethal use of the weapon.

V. Implementation Approach

Rothesay screens any new investments at point of trade, using a third-party service provider to support exclusions in line with our exclusion criteria, as well as wider screens including human global compact violations or watch-listing. This includes any assets we may receive as part of a pension risk transfer transaction.

In addition, the portfolio is screened quarterly to capture evolving risks including active controversies which may not been identified as part of the business-as-usual issuer performance monitoring. Outcomes from the screen are included as standard reports to the Board Risk Committee. Investments with material sustainability concerns will be added to our internal watch list and monitored closely. We are reliant on third party suppliers to support our screening and maintain best endeavours to invest in line with our stated exclusions and investment objectives based on the information available to us.

If we identify investments which breach our exclusion policies, we will endeavour to exit the investment within 90 days, where this is possible. Certain circumstances may prevent this occurring, for example for highly illiquid positions, or where investments appear on our internal restricted lists. In addition, where we hold sovereign investments for hedging and liquidity risk management purposes, we may be unable to exit the position.

Where such an occasion materialises, we will document barrier to exit, include in our engagement process if appropriate and continue to closely monitor the position and potential for divestment.

VI. Engagement

As part of our mission to provide security to our policyholders, engagement with issuers to encourage more sustainable practices that yield long-term financial returns is an important aspect of our approach to sustainability risk management. We are dedicated to delivering positive outcomes for all our stakeholders and given the long-term nature of our business, we utilise engagement to ensure we maintain an appropriate understanding of risks to which our borrowers are exposed.

In addition, Rothesay is committed to responsible engagement with firms in our portfolio. This means our preferred approach where we identify sustainability related issues is for engagement rather than immediate divestment, to support behaviour improvement.

As we do not use external asset managers, all our engagement is coordinated by our dedicated ESG analysts and conducted in collaboration with members of our Credit Risk and Asset Management teams. We have chosen to undertake this approach as it ensures our engagement efforts can be appropriately resourced, proactive, focused on material factors where we can have the most influence and support our specific climate strategy and broader sustainability risk management approach. We note that, as a debt only investor, the occasions, and degrees to which we can exercise influence are more limited, but engagement remains central to our responsible investment strategy.

Along with our bilateral engagement approach, we occasionally seek to participate in collaborative engagement efforts where we determine there is relevance to our portfolio and that anti-trust concerns are absent. We look for opportunities to join groups whose goal is to influence and assist sectors that are not yet mature in their sustainability reporting approaches and could benefit from combined industry experience to support better adoption.

Engagement targets are selected with respect to several factors including those issuers with the highest Carbon Intensity in the portfolio, lack of Paris-aligned transition plans, underperformers within their sector and active material controversies. Judgement is used to focus our engagement to where it could make the most material difference to the mitigation of the risks from sustainability factors. Each engagement is formally recorded to ensure we can continue to monitor progress and improvement of an entity over time against actions raised, along with the impact on their credit fundamentals.

Our approach to engagement will continue to develop as guidance and / or regulatory requirements regarding disclosures evolve, and our approach matures.

VII. Escalation

We take a materiality-led approach to determine the prioritisation of issues to consider and escalate. The most common concerns that we escalate relate to the provision of data and lack of ambitious targets, especially when compared to an issuer’s industry peers. As previously mentioned, we have often successfully obtained additional disclosure from companies simply by addressing a more senior individual. In addition, we will escalate queries relating to any ambiguity within the business plan with regards to its transition to a low carbon economy. We actively monitor and escalate our engagement upon the release of news surrounding a controversial activity or a change in business mix that threatens Rothesay’s own climate commitments.

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

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

VIII. Conflicts of Interest

Rothesay has adopted a Conflicts of Interest policy that provides the business with guidance for identifying, avoiding, disclosing and managing circumstances that may give rise to conflicts of interest. This supports our ability to consistently put the best interests of our clients first. Our policy defines a conflict of interest as the following:

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

Potential conflicts arise in two ways:

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

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

Rothesay takes the following approach for all conflicts of interest:

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

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

Rothesay Compliance prepares an annual conflicts of interest report to the Business Controls Committee. In addition to metrics such as conflicts self-reported by employees, the report includes specific examples of conflicts that have arisen. The Executive Risk Committee, Business Controls Committee and Audit Committee are responsible for oversight of conflicts of interest.

IX. Reporting

To maintain transparency and meet stakeholder expectations, we report annually on our progress against our sustainability objectives. This includes an annual Climate report that outlines progress against our Pathway to Net Zero strategy, including updates against our key environmental commitments. This is reported in line with the TCFD framework. Our Sustainability report outlines our broader sustainability activity for our investment portfolio, our business, and our people, along with details of the partners with whom we have worked. We also report on where we have applied our stewardship approach as part of our annual Stewardship reporting.

In addition, internal reporting keeps both management and board up to date on material activities. This includes regular Carbon Intensity (CI) reporting which provides commentary on changes in Rothesay's CI due to trades executed during the week and indicates progress against our CI reduction targets. Updates on climate score distribution within the portfolio and monitoring against broader sustainability metrics, using MSCI data outputs, are also included in monthly risk MI packs.

We undertake a robust internal review process to provide assurance that our reporting and disclosures can be verified and substantiated. Our governance structures provide mechanisms through which our sustainability strategy and stewardship practices are reviewed and evaluated by senior members at Rothesay, including the Chief Risk Officer, and Head of Investment Strategy.

There is a significant level of internal oversight across the Group to provide assurance over our sustainability investment policies and practices and the success with which they are being implemented. We have also engaged external consulting and legal support to provide independent assessments of our approach to sustainability reporting. The importance to our stakeholders and ourselves of high-quality reporting has led us to obtain formal external assurance on our carbon emissions data and methodology.

Disclaimer

This material is intended solely for the party who has received this material from Rothesay and is not intended for use by any other person in connection with the content described herein. The information is for the recipient's use only. The information is confidential and proprietary and no part of it may be reproduced, disseminated or disclosed in any way without Rothesay's prior written approval. Rothesay and its affiliates accept no responsibility or liability for any use of the information. The information does not constitute an offer or an agreement, or a solicitation of an offer or an agreement, to enter into any transaction (including for the provision of any services). Rothesay does not provide actuarial, tax, accounting, investment or legal advice to our clients, and all clients are advised to consult with their own advisers regarding any potential transaction. This material is for discussion purposes only, and does not purport to contain a comprehensive analysis of the risk/rewards of any idea or strategy herein. This material and its content are not for distribution to retail clients, defined in the Financial Conduct Authority's Conduct of Business sourcebook. Rothesay and any of its affiliates, advisors or any person acting on any of its behalf shall (without prejudice to any liability for fraudulent misrepresentation) have no liability whatsoever for loss however arising, directly or indirectly, from the use of the information communicated in or in relation to the information.

The legal documentation governing any transaction will contain the only legally binding terms in respect of such transaction and will supersede and qualify this document in its entirety.

Throughout this document, "Rothesay" refers to Rothesay Life Plc. Rothesay is the trading name for Rothesay Life Plc, a UK insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference Number: 466067. Rothesay Life Plc is registered in England and Wales with company number 06127279.