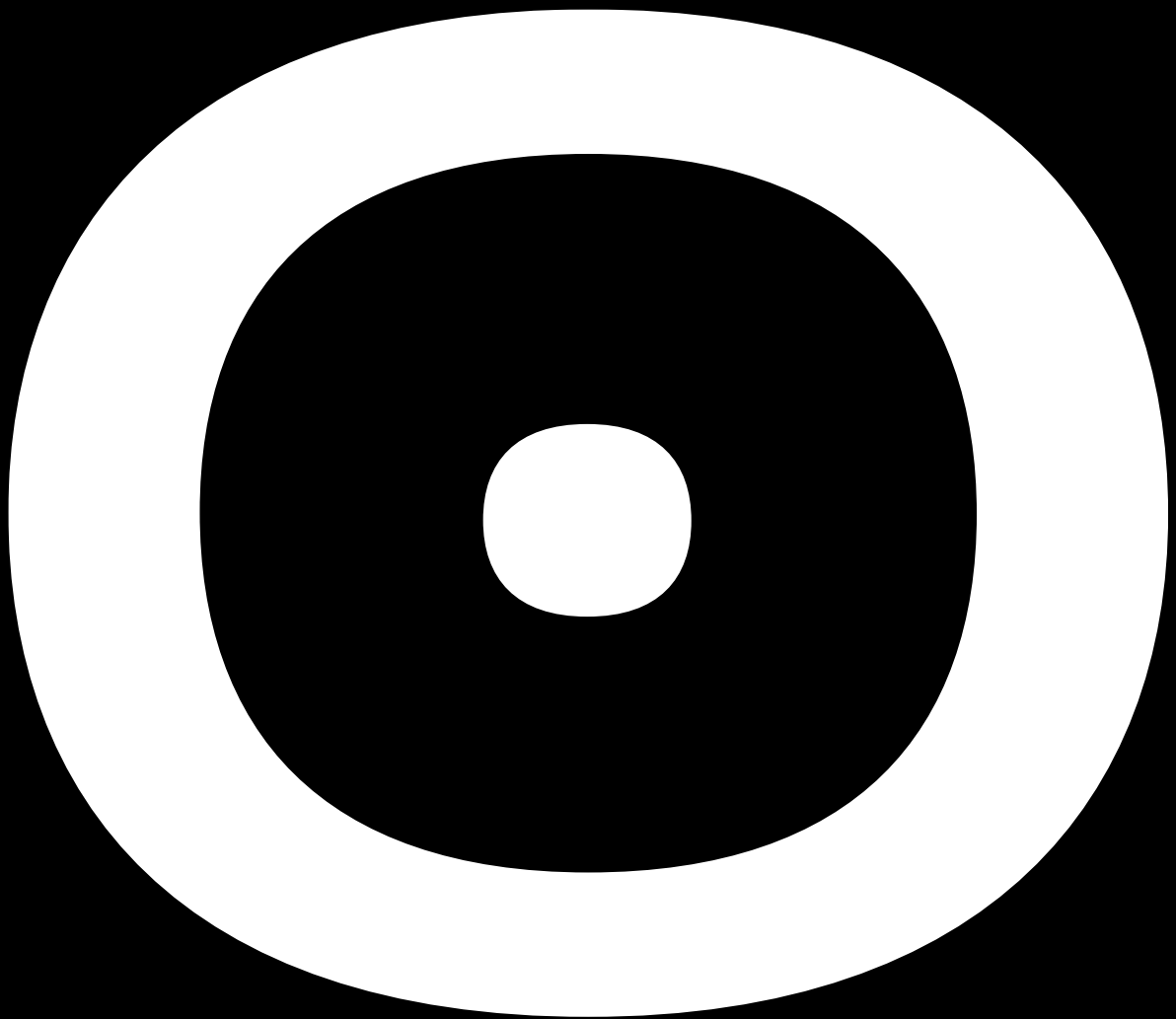


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STEWARDSHIP REPORT 2024

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Introduction

Rothesay is the largest UK specialist pensions insurer, purpose-built to protect pension schemes and their members' pensions. Our singular focus is to secure pension annuities for the future, providing certainty for our policyholders. Our careful approach to investment, prudent underwriting and service excellence mean we are trusted to provide pension solutions by the pension schemes of some of the UK's best known companies including British Airways, Cadbury, the Civil Aviation Authority, The Co-operative, Morrisons, Smiths Industries and Telent.

Our participation in an active pension risk transfer industry means our business is on a strong growth path. This growth has increased the portfolio of assets securing the pensions we protect and has been supported by an increased headcount in London and our international offices in the US and Australia.

Today, we manage over £70bn in assets, secure the pensions of over one million people, and pay out, on average, over £300m in pension payments each month. Our long-term approach and in-house asset management supports our ability to consistently identify and manage our principal risks including global climate risk exposure within our investment portfolio through active engagement over the duration of an investment. Our investment and stewardship strategy is shaped by the requirements of our regulators and the needs of our pension trustees, as well as a desire to effectively manage the risks that affect our business. Given specific regulatory focus, our management of sustainability risk receives particular attention within our case studies in this report. Our approach to the management of these risks allows us to achieve our primary goal of providing pension security to our policyholders.

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

Alongside the stewardship of our portfolio, we focus on creating a positive impact through all our operations and for all our stakeholders, including our people and wider community. The Rothesay Foundation continues its mission to help improve the quality of life for older people in need in the UK.

The Financial Reporting Council (FRC) defines stewardship as 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'. Our risk assessed, outcome driven approach as outlined in this document aligns with our purpose to support the future of our policy holders. This document considers the twelve principles detailed in The UK Stewardship Code 2020. Unless stated otherwise, all activities and data presented in this report refer to 2024.

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

Message from the CEO

This is our fourth Stewardship Report, covering activities carried out in the year ending 31st December 2024. Within it, we are pleased to detail how stewardship and sustainability decisions have influenced the management of our investment portfolio throughout the year.

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

An important part of our role as a good steward is to engage on any concerns with issuers, service providers and our industry peers. Through these engagements we seek to encourage transparent disclosures on sustainability-related risks and improved stewardship practices.

Our approach to stewardship continues to evolve. In 2024, highlights included partnering with the National Wealth Fund on social housing retrofit and the continued build-up of our understanding of nature-related risks and opportunities. We have also included examples of where we have applied our stewardship approach throughout the last year, and we look forward to sharing the further progress we make in 2025 as part of next year's report.



Tom Pearce

Chief Executive Officer

I. Purpose, strategy and culture

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

Our purpose, values and culture

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

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

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

Our clients

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

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

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

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

Our business model and strategy

Underwrite the liabilities

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

Hedge the risks

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

Invest the assets

We seek to invest in assets: (i) where the cashflows that we receive in connection with that asset, match our liability cash flows (ii) which meet our sustainability objectives, and (iii) which provide an appropriate risk-adjusted return. To achieve this, we invest in investment grade bonds and loans. Rothesay's investment portfolio is focused on highly rated assets with over half of our rated assets having a rating of AAA or AA and it is made up of three diverse categories:

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

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

Deliver the pension benefits

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

Drivers of our Approach

Our stewardship approach is shaped by the requirements of our regulators and the needs of our pension trustees, alongside a desire to effectively manage the wider risks that affect our business.

For example for climate risk, the Prudential Regulation Authority (PRA)'s 2019 Dear CEO letter, and accompanying Supervisory Statement 3/19 (SS3/19), formally set the expectation that PRA regulated firms like Rothesay must evidence the integration of climate-related financial risks into their governance, risk management and scenario analysis processes, and disclose publicly on these elements. These expectations continue to evolve as evidenced by the recent consultation on an update to this Supervisory Statement.

The PRA conducts thematic reviews to monitor progress and seeks demonstration of our capability to manage climate-related financial risk exposure. We engage fully with these reviews, with our Climate Report providing details on our annual progress against such expectations.

For our pension trustees, the Pension Regulator requires trustees of pension schemes to identify, assess, and manage climate-related risks and opportunities, in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). The climate-related disclosures in this report therefore align with our purpose to protect pension schemes through supporting them to meet these regulatory requirements.

Our Investment Beliefs

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

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

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

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

Long-term Investment Strategy

Our investment philosophy has been designed to match the nature of the liabilities we take on, and is based on making stable, low-risk, long-term investments with predictable cashflows. Our approach to investment is patient and measured given the long-term nature of the business we are in, and we continually analyse potential risks associated with those investments, including all relevant sustainability considerations.

Our in-house team is responsible for the management of Rothesay's asset portfolio (over £70bn at year end 2024). This allows us to proactively manage the composition of our investment portfolio and identify assets that match our liability cash flows. We strive to deliver an appropriate risk-adjusted return in line with our Responsible Investment and Stewardship Policy.

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

Culture

Rothesay seeks to attract and retain the highest quality talent in the industry. The effectiveness of our risk management depends upon the high quality of our people and the strong risk culture and risk management practices.

We are committed to maintaining the highest standards of integrity, transparency, and accountability. Good conduct is fundamental to our purpose, strategy, and how we operate, and is also good business practice. A good culture is one where people do the right thing, feel empowered to speak up if something does not look right, and know they can rely on support from management. Training is conducted so that everyone appreciates Rothesay's risk culture and the part they play in maintaining standards and in managing risk effectively.

Rothesay's risk culture is set from the top down, with the Board and senior management ensuring that risk management is embedded throughout the organisation and demonstrating day-to-day how risk management informs decisions big and small. Risk management and conduct are an integral part of Rothesay's performance review process, ensuring that all Rothesay employees are held to the highest standards.

Sustainability Commitments

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

1. We aim to transition our investment portfolio to Net Zero greenhouse gas emissions by 2050.¹
2. We aim to manage our investment portfolio with the aim to align with a maximum temperature rise of 1.5°C in line with the Paris Agreement.

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

3. We actively seek out opportunities to match our long-term investment horizon with investments that support our sustainability 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, where relevant, into our investment analysis, stewardship approach, decision-making and engagement processes to appropriately consider social & governance and wider environmental factors, including climate change.
6. We recognise the investment required by high emitters to transition to a low carbon future. We will therefore seek opportunities to finance high emission companies where they have robust and credible transition plans, recognising that this may increase our Carbon Intensity (CI) in the short term.
7. We actively seek to engage with issuers currently misaligned with our commitments, rather than pursue immediate divestment.

We are working on a Transition Plan to provide further guidance on actions to support our Net Zero goals. Further information can be found on p.11 of our 2024 Climate Report.

Climate Commitments

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

OUR BUSINESS

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

OUR INVESTMENTS

Net Zero by 2050

- Committed to transition our investment portfolio to Net Zero greenhouse gas emissions by 2050.

Paris Aligned Portfolio

- Aim to transition portfolio by 2050 in line with the Paris Agreement's long-term goal of limiting global warming to a maximum temperature rise of 1.5°C above pre-industrial levels.

2025 targets

- We aim to reduce the Scope 1 & 2 Carbon Intensity of both our total portfolio and our Publicly Traded Corporate Debt (PTCD) sub-portfolio by 20% by 2025, with a baseline set in 2020.

2030 targets

- We aim to reduce the Scope 1 & 2 Carbon Intensity of both our total portfolio and our Publicly Traded Corporate Debt sub-portfolio by 50% by 2030, with a baseline set in 2020.

Engagement

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

Low-carbon Sectors

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

Formalising Our Approach to Sustainability Analysis

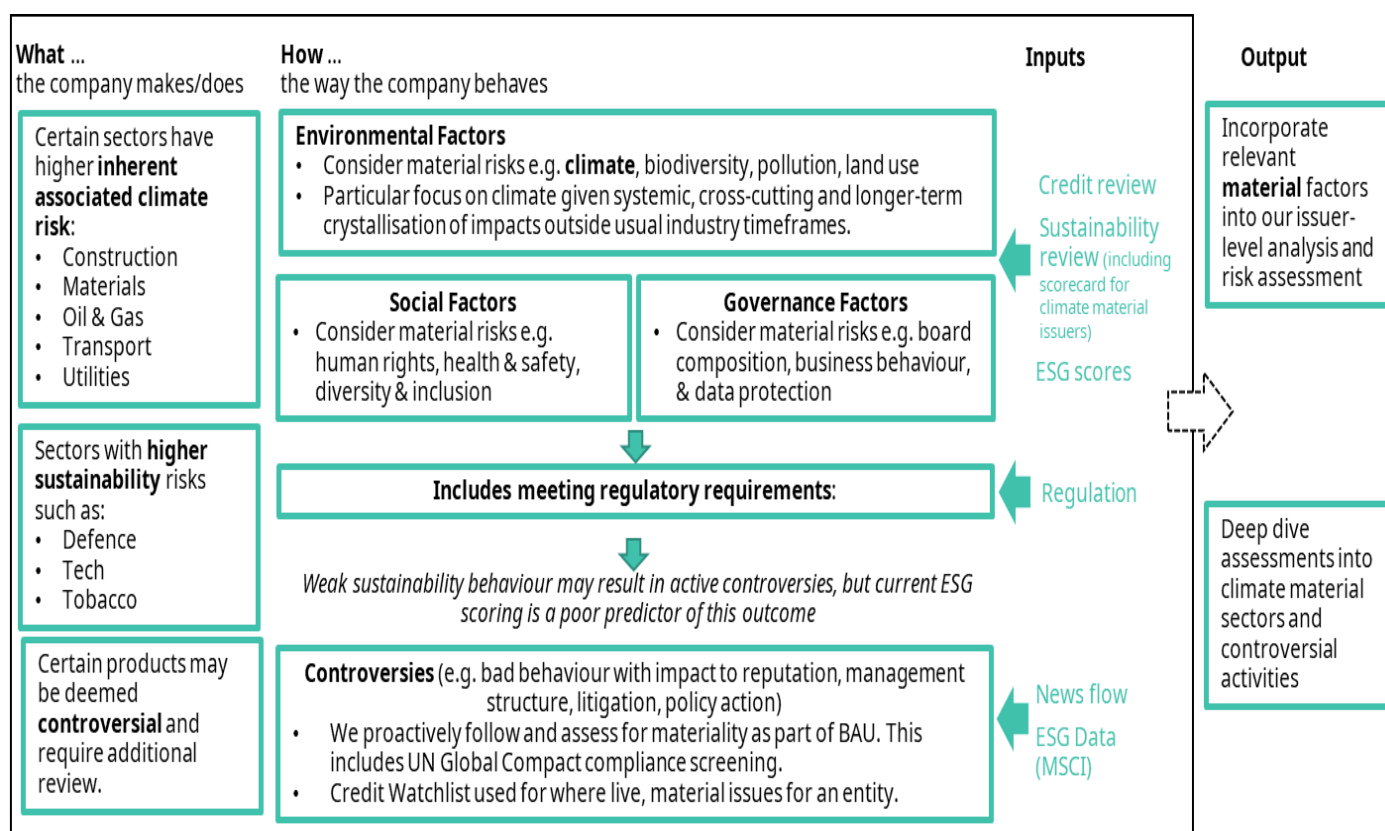
As described in our investment objectives, Rothesay's investment decision-making seeks to take a quantitative view of risk where possible and invest in a manner that both maximises policyholder security and enhances shareholder value on a risk-adjusted basis. This ensures that our investment strategy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

In 2024, we continued to review and implement enhancements to our sustainability risk assessment framework. Our sustainability analysis considers both the 'what' and the 'how' of company behaviour, to reflect the range of ways in which sustainability risks and opportunities may arise. This utilises several third-party data inputs which are overlayed with internal analysis to support our assessment.

This framework is explained in greater detail in Principles VII and XI. These actions reflected feedback from pensions consultants, as well as recognition becoming more widespread amongst trustee boards.

Whilst weak sustainability behaviour may result in active controversies, current sustainability scoring remains a poor predictor of outcomes. This is driven by these scores currently focusing on disclosure over impact, qualitative assessment requirements and a lack of standardisation. Due to this, whilst they can be an interesting data point, they are not used as a standalone decision-making metric. Our approach to sustainability integration is described in more detail under Principle VII.

Sustainability Investment Framework for Effective Stewardship



Assessment of effectiveness in serving the best interests of our clients

Rothesay's financial resilience is essential to securing the annuity incomes for our policyholders and supporting policymaker initiatives to deliver wider sustainability and economic benefits. As noted in our Annual Report, at the end of 2024 Rothesay had a solvency capital requirement coverage of 261% and reaffirmed credit ratings from Moody's and Fitch of A2 and A+ respectively. In recognition of the high quality of our approach in this area, we were also re-accredited with the Gold Standard by the Pensions Administration Standards Association.

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

From a stewardship perspective, we have continued to undertake and enhance our actions during 2024 to ensure that our approach to stewardship is fully aligned with our investment strategy, business model and culture. Where possible we measure and monitor the effectiveness of these measures, with Key Risk Indicators (KRI's) created to define target operating ranges, and data included in the relevant committees for discussion.

- Effective sustainability and climate risk management is essential to meet our objectives for 'Policyholder Security' and 'Balance Sheet Stability'. Our investment portfolio's Carbon Intensity (CI) remains a Key Performance Indicator, and the principal method by which we measure, and evidence progress with portfolio decarbonisation.
 - On a weekly basis, we report the performance of our portfolio against our CI targets to senior stakeholders and discuss drivers for change including investment activity and new data availability.
 - On a bi-monthly basis, we report progress against a wide range of sustainability metrics to the Executive Risk Committee (ERC) including issuers with a material climate score, United Nations Global Compact status and sustainability opportunity financing. We also verify compliance with our portfolio exclusions. Information on these data points is provided in Principle VI.
 - In 2024 we began reporting our sustainability metrics to our Executive team on a monthly basis. Through this, we are able to support our active monitoring of exposure to issuers with heightened exposure to sustainability risks.
 - As outlined in Principle VII below, Rothesay continues to require high emitting entities in our portfolio to demonstrate that their decarbonisation plans are sufficiently ambitious and will lead to sufficient reductions in their climate metrics.
 - Our Board discussed and approved topics for inclusion in our suite of sustainability disclosures, to ensure the most relevant information was appropriately captured.
 - **Effectiveness:** Intense focus at executive level and regular internal reporting has ensured that sustainability considerations, especially climate impacts, are embedded within all trading decisions. Trading decisions that result in adjustments to portfolio composition take into account the effect on our climate metrics as well as more traditional considerations of returns on capital and improvements in credit quality.

- In line with our 'Value-driven' investment principle we continue to monitor developments in quantitative methods to assess sustainability risk and ensure appropriate stewardship decisions.
 - We have always considered sustainability and responsible stewardship across our investment decisions. The outcomes are evidenced by the material deployment into sustainability-linked investments as shown below.
 - As discussed above, our sustainability risk assessment framework ensures we capture and consider all material elements of sustainability risk, in part driven by customer feedback. Updates to this framework are included in our Responsible Investment & Stewardship policy, which we review regularly and make publicly available.
 - In 2024, we furthered our exploration of nature-based risks by joining the Taskforce on Nature-related Financial Disclosures Forum to remain informed on the development of nature-related guidance. As part of the Climate Financial Risk Forum, we have also been actively involved in the Nature working group, contributing to the creation of their latest nature handbook for financial institutions.
 - In addition to our CI targets, we once again published Financed Emissions and Implied Temperature Rise metrics in our 2024 Climate Report. We also provided an updated analysis of our wider operational Scope 3 emissions. More information on how we have ensured metrics are presented in a balanced manner can be found in Principle V.
 - **Effectiveness:** We judge our progress here to be effective, but as client needs evolve and sustainability measurement generally becomes more sophisticated, Rothesay will ensure to implement any necessary improvements. We continue to monitor client needs, seek better quality, more forward-looking data, and will enhance our strategy and disclosure accordingly, starting with the publication of a transition plan. We are committed to aligning with future best practice frameworks, such as the UK Sustainability Reporting Standards (UK SRS) that will replace Taskforce for Climate-related Financial Disclosures (TCFD) and investigating new frameworks, such as that established by the Taskforce for Nature-related Financial Disclosures (TNFD), in a full and timely manner.
- In line with our 'Collaborative & Diverse' cultural value, we have worked hard to ensure that all colleagues feel accepted and have equal opportunities to thrive at Rothesay.
 - Actions taken continued to support and enhance the diversity and inclusion (D&I) Executive Working Group. More information on this process and other Diversity and Inclusivity projects that ran throughout the year can be found in Principle II.
 - **Effectiveness:** During 2024, we again participated in the #10,000BlackInterns programme which seeks to address the issue of underrepresentation of black talent across a range of industries, including the financial sector.

Case Study - Fullerton-Long Caribbean Scholarship Fund

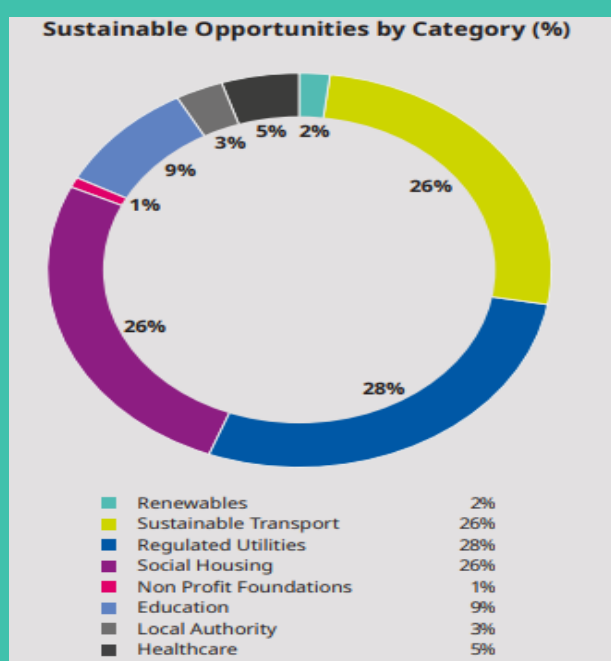
In 2024, Rothesay partnered with the Fullerton-Long Caribbean Scholarship Fund by making a donation to support scholarship awards to university students over the next four years. Established alongside the IFoA Foundation, the charitable arm of the Institute and Faculty of Actuaries (IFoA), the Fund supports high-performing young actuaries studying at the University of the West Indies. It provides funding for tuition, mentorship, and internships to help students progress towards qualification and a career in the actuarial profession. The programme was established and also part-financed by Norbert Fullerton (LCP) and Andrew Long (WTW), senior actuaries in the UK and Ambassadors of the IFoA Foundation.

- We continue to deliver consistently good customer outcomes:
 - In 2024, Rothesay continued our commitment to upholding Consumer Duty principles.
 - As a direct response to feedback received from policyholders, we introduced two videos in 2024 – the first is designed to help policyholders understand the difference between defined benefit and defined contribution, and the second explains what a transfer value is and why it can increase or decrease over time. The videos have been well received by our policyholders and we have several more planned for 2025 and beyond.
 - Our complaint levels continue to be low with 1.91 complaints received per 1,000 policyholders (2023: 1.94 complaints per 1,000).
 - **Effectiveness:** We are proud of our performance and continue to develop our approach to go 'above and beyond' in delivering good customer outcomes and reducing the risk of customer harm. In 2025, we will continue to expand our in-house administration platform which uses our own record of all member benefits and future payments to ensure a data transition to our administration partners that is seamless to our new policyholders.

Case Study: Investing in Sustainable Opportunities Performance

As outlined in our 2023 Stewardship Report, a key tenet of our strategy is investing our capital responsibly; it is critical that we invest in assets which match our liability cash flows, which provide appropriate risk-adjusted returns, and which support our pathway to a more sustainable future. In particular, this includes funding the provision of critical infrastructure especially in the UK. Given the long-term nature of our business, we consider the impact of our decisions well into the future to ensure we deliver positive outcomes for all our stakeholders, including our policyholders, our investors, and our society.

We continue to support this, with Rothesay having invested £19.1bn in opportunities deemed to be sustainable investments at year end 2024. No change has been made to our definition of sustainable investments, which we consider to be investments in companies and sectors that are in alignment with one or more United Nations Sustainable Development Goals, and where the proceeds can be explicitly earmarked for sustainable or social purposes.



Investments currently meeting this definition include:

Social Housing; Local Authorities; Education; Sustainable transport; Healthcare; Regulated Utilities; Non-Profit Foundations; Renewables

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

In addition, Rothesay has invested £29.1bn in companies and projects that have beneficial impacts on the UK, such as transport, infrastructure, education and social housing.

Assessing our effectiveness through direct feedback from clients

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

Rothesay prides itself on the quality of service that it provides and has developed robust governance to support this objective. This includes monitoring customer satisfaction as part of our Alternative Performance Measures (APMs). Policyholder feedback surveys are sent to all policyholders following interaction with them (apart from complaints or bereavements). In 2024, 96% of customers rated our service as either good or excellent.

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

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

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

Overall, we are satisfied with the effectiveness of our ability to serve the best interests of our clients and beneficiaries, through the customer service we provide and our diligent approach to stewardship across our investment portfolio.

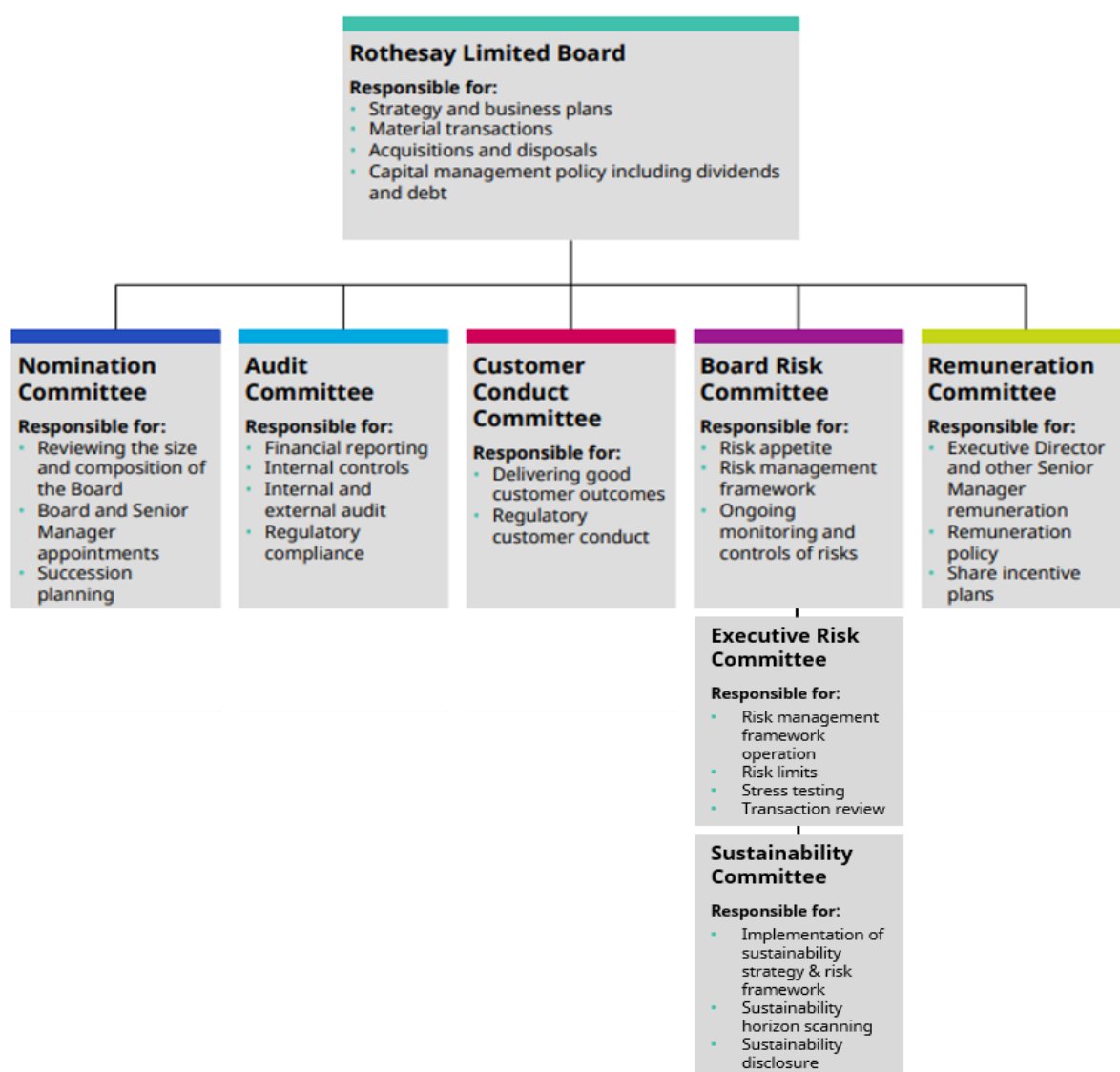
II. Governance, resources and incentives

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

Governance structure to enable oversight and accountability for effective stewardship

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

The Board Committee structure is shown below:



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

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

Rothesay's governance structure means that decisions can be made quickly and efficiently whilst ensuring that there is robust oversight. The Board is supported by the Audit Committee, the Board Risk Committee (BRC), the Customer Conduct Committee, the Remuneration Committee, and the Nomination Committee. Terms of reference for these Committees can be found at www.rothesay.com.

Case Study - Board Effectiveness Review

An internally facilitated review of Board and Board Committee effectiveness was undertaken during 2024 by the Company Secretariat. This consisted of the completion of a questionnaire by Directors and a number of other senior executives and the collation and presentation of the results at a Board meeting. In addition, the Chairman meets annually with all Directors individually to discuss their feedback on Board performance and their individual contribution.

The review concluded that the Board and its Committees are highly effective and led to a small number of recommendations, which will be addressed over 2025.

Fit and proper requirements

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

Rothesay's Fit and Proper Policy was first approved by the Board in November 2015. It has since been updated regularly, and at least annually, to ensure ongoing compliance with the fitness and propriety requirements of Solvency II and the Senior Managers & Certification Regime (SM&CR).

The Fit and Proper Policy and its underlying operational framework identify who is in scope, how fitness and propriety is assessed for both new starters and on an ongoing basis and the governance arrangements in relation to individuals being approved as being fit and proper. This includes Rothesay's requirements for skills, knowledge, and expertise for the people who effectively run the business.

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

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

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

- Insurance and financial markets;
- Business strategy and general management;
- Governance;
- Risk management;
- Financial and actuarial analysis; and

- Regulatory framework and requirements.

Rothestay employs the following procedures to assess fitness and propriety:

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

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

Appropriate Resourcing of Sustainability and Stewardship activities

Board Oversight

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

Sustainability topics are a regular item at Board and sub-Committee meetings. Material presented largely falls into three categories: general information designed to educate and ensure a broad understanding; specific sustainability and climate information that supports and solicits investment and business decisions; and Rothestay's climate-related metrics, alongside progress against our targets (for business operations and the investment portfolio). Performance versus our sustainability targets is shared at each Board Risk meeting, with the more strategic discussions occurring as appropriate, and at least twice a year.

Case Study - Items taken to Board in 2024

The table below summarises some of the stewardship related items that were taken to the Board for discussion or approval in 2024:

Key discussion themes	Areas covered/Approvals
Our Disclosures	• Discussion on topics for inclusion in our suite of sustainability disclosures, including review in line with anti-greenwashing expectations. • Approval: sustainability reporting including TCFD-aligned Climate Report. • Approval: sign-off of the external assurance of selected climate metrics. • Approval: Stewardship Code application.
Our Policies	• Updates to a number of policies including: – Responsible Investment and Stewardship Policy – Investment and Credit Policy – Corporate & Social Responsibility Policy
Our Strategy	• Ongoing oversight of progress against climate commitments and broader sustainability investment strategy, including UN Global Compact and wider sustainability risk. • Review and update of Board Committee Sustainability Responsibilities. • Noting of employee engagement survey outcomes. • Ongoing consideration of anti-greenwashing legislation.
Our Partners	• Discussion on whether to support the Sustainability Principles Charter for the Bulk Annuity Process. • Approval: signatory status for the above Charter.

Management Oversight

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

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

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

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

Peter Shepherd

Chief Risk Officer

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

Sustainability Committee

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

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

Membership of the SC includes:

- Chief Risk Officer (chair)
- Chief Auditor
- Chief Financial Officer
- Chief of Staff
- Head of Communications & Public Affairs
- Head of Sustainability & Credit Projects

Recommendations from the SC are subsequently presented for approval at the executive committees and ultimately the BRC or the full Board.

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

Sustainability Team

We have a dedicated Sustainability Team managed by our Head of Sustainability and Credit Projects, who reports into the Chief Risk Officer. This team acts as the central hub supporting the coordination of company-wide activity related to sustainability. Our analysts advise on sustainability strategy and frameworks, manage sustainability disclosures, and monitor relevant channels for evolving requirements and best practice.

The team also provide input to trade decisions and investment committee memoranda, advising on any material sustainability considerations. This ensures stewardship principles are widely considered and consistently applied for new investments. The analysts within this team have multiple years of sustainability experience, on top of wider experience in credit, risk management and consultancy, as well as relevant professional qualifications such as the Chartered Financial Analyst Institute Certificate in ESG (environmental, social, governance) Investing.

Holly Cook

Head of Sustainability and Credit Projects

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

Diversity and Inclusion Executive Working Group

The diversity and inclusion (D&I) Executive Working Group takes senior responsibility for forming and delivering our D&I strategy as we go forward. In addition, Board Non-Executive Director Angela Darlington is now Rothesay's first independent Board sponsor for D&I.

In 2024, we encouraged employees to contribute ideas, organise, and get involved in raising awareness and celebrating key cultural and religious events and occasions including Lunar New Year, Eid al-Fitr, Easter, Diwali, Hannukah, International Women's Day, Pride, and Black History Month. Our D&I initiative encourages employees to provide more detailed personal information, recognising this is essential information to enhance our ability to promote D&I within our business.

Incentivising integration of stewardship and investment decision making

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

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

Training

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

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

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

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

We continue to assess our governance processes to ensure they remain appropriate and look for opportunities to strengthen our approach where necessary. For example, through considering future resourcing requirements and training opportunities. Furthermore, we ensure each of our Board Committees capture all relevant stewardship responsibilities in their Terms of Reference. As outlined below, all have defined roles and responsibilities relating to oversight, consideration, and reporting of climate-related risks and opportunities.

Promoting Diversity and Inclusion

As a founder-led business, Rothesay has been committed to creating a culture that actively values difference from day one. We know that our success depends on our people and that a culture that values difference creates a stronger, more dynamic business. We believe that everyone should be treated as an individual and have an equal opportunity to thrive in their careers.

We ask all employees to provide us with their diversity & inclusion (D&I) data on a confidential basis to enable us to have the necessary information to promote D&I within our business. Such data includes gender, race, sexual orientation, religion, nationality, disability, whether the person is a carer, and socio-economic background.

We continue to look at ways of identifying a more diverse range of talent for the long term. We believe in taking practical steps to drive this outcome. During 2024, we again participated in the #10,000BlackInterns programme, which seeks to address the issue of underrepresentation of black talent across a range of industries, including the financial sector.

Effectiveness of our governance structures and processes in supporting stewardship

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

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

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

This report indicates ongoing consistency and high degrees of rigour in our stewardship practices and demonstrates the value gained from the breadth of expertise available and harnessed through the SC membership and framework.

Potential improvements to these structures and processes

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

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

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

Case Study – Terms of Reference review for Board level Committees

At the request of the Board Risk Committee, a review of the Committee's Terms of Reference (ToR) was conducted in Q1 2024 to ensure that sustainability matters were appropriately covered, and to revise as necessary. The decision was taken to take the opportunity to holistically consider the allocation of sustainability roles and responsibilities across all Board-level Committees.

As a result of this review, a small number of updates were needed to ensure all responsibilities were appropriately documented including new anti-greenwashing regulation considerations, and that roles could be clearly communicated.

III. Conflicts of interest

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

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

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

Our policy defines a conflict of interest as:

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

Potential conflicts arise in two ways:

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

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

Identification and Management of Conflicts of Interest

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

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

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

Rothesay takes the following approach for all conflicts of interest:

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

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

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

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

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

Case Study – Addressing potential Conflicts of Interest

We encourage and require employees to raise potential conflicts of interest so that they can be properly assessed and considered, including seeking the approval from relevant senior management who may be closer to the issue. For the most part, requests by employees to conduct personal account trades in listed securities are approved but occasionally they will be rejected. A small number were rejected in 2024 due to either perceived or actual conflicts. Requests falling within the latter category were commonly declined because Rothesay was in receipt of MNPI in relation to a particular issuer.

Potential conflicts could arise where employees disclose outside business activities, private investment activities, gifts & entertainment offers, personal relationships or other areas of concern. Requests are usually approved and/or noted after appropriate consideration. For instance, in 2024 a conflict was identified where a Rothesay employee had a personal connection to the Chairman of the Board of a company which Rothesay was looking to potentially act as a lender to. This was managed by ensuring proper oversight (by the Head of the team) of the employee's involvement in the potential trade, as well as timely disclosure to the relevant senior managers and committees ahead of any actual investment.

IV. Promoting well-functioning markets

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

Rothesay's risk management framework (RMF)

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

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

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

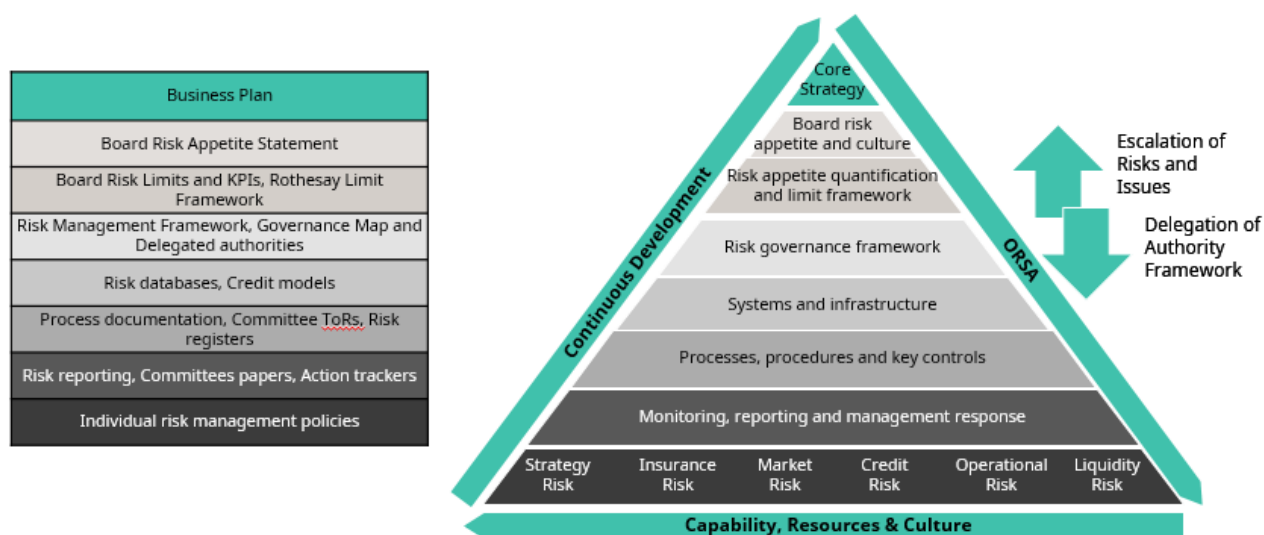
Second line: Design and maintenance of the risk management framework as well as risk oversight is provided by the Chief Risk Officer (CRO), his team and risk management committees. The Chief Compliance Officer and his team report to the General Counsel as part of the Legal and Compliance Function, as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

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

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

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

Despite the successful operation of our risk management framework in 2024, we are constantly reviewing and improving the entire framework to ensure that it continues to provide the insights to ensure effective risk-based decision making at all levels of the organisation.



Identification and Response to Market-wide Risks

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

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

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

Our Approach to Understanding and Managing Market-wide Risk

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

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

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

Identification and Response to Systemic Risks

Many of the issues we addressed here in our reporting for 2023 continued into 2024. We have chosen not to reproduce this content, which instead can be found on our company website in our 2023 Stewardship Report. Instead, the below outlines some new examples of systemic risk impacts to markets and how Rothesay's stewardship approach has supported positive outcomes for the business and contributed to the well-functioning of markets.

Geopolitical tension, global fragmentation and elevated sovereign debt risks

Risk Identification

Continuing geopolitical events in 2024 raised the risk of supply shocks, higher energy prices, and flight to safety trading as market participants from time to time might anticipate higher rates and inflation, testing market liquidity. Global fragmentation caused by a drive for increased self-sufficiency had the potential to curb cross border capital flows and apply a stress to public debt ratios. In turn, rising sovereign term premia could increase volatility and constrain governments' fiscal responses.

Rothesay Response

Liquidity risk is one of Rothesay's major risks which is particularly prominent during market volatility. With higher interest rates and Gilt spreads, our pool of the most liquid collateral would tend to shrink in market value. In a volatile market, therefore, we continued to monitor possible outflow scenarios and made sure we maintained sufficient balances in cash, Gilts and other liquid assets to cover the largest plausible collateral calls over the short, medium and long term. Higher sovereign spreads meant that some of the least risky investments that we make in Gilts, Treasuries and other G7 sovereign bonds became more efficient assets for backing our liabilities than riskier corporate bonds, for example.

Vulnerability of UK households as higher interest rates pass through to mortgages

Risk Identification

While higher rates were not a new phenomenon in 2024, homeowners who needed to borrow for a specific purpose e.g. needing to remortgage or borrow for their lifestyle were unable to avoid them, and unable to wait to see if rates would reduce. In the market for equity release mortgages, regular repayments are not needed, and the higher rates with no principal repayments leads to quicker roll up of the mortgage balance that could outpace the growth in the value of the property meaning less equity and a higher risk of the property being in negative equity at life expectancy.

Rothesay Response

For equity release mortgages, higher rates mean potentially higher risk of negative equity. In response to this environment, Rothesay constantly monitors the funding and takes appropriate action, which has led to us to remove the higher Loan to Value (LTV) bands, to reduce the negative equity risk.

Pension Risk Transfer and the use of funded reinsurance

Risk Identification

During 2024, there was a significant uptick in the use of offshore, funded reinsurance by UK insurers involved in the pension risk transfer business. In such transactions, not only is longevity risk ceded to a reinsurer but also the investment risk with often the whole liability ending up being backed by a single large, collateralised loan to the reinsurer. The associated collateral is typically illiquid and not guaranteed to be matching eligible under the Solvency II capital regime. Furthermore, because this concentrated investment is deemed to be an insurance contract, it attracts anomalously low capital, since the assets are offshored to the reinsurer. There is a risk, therefore, that UK insurers use favourable capital treatment for potentially unfavourable risk characteristics and, across the industry, enter into an excess of such arrangements whose complexity and lower transparency cause concerns for the regulator.

Rothesay Response

Rothesay manages its longevity risk through unfunded, collateralised longevity swaps and has not utilised any funded reinsurance. Rothesay will continue to review the market and collaborate with regulators and other market participants on funded reinsurance and its impact on capital and wider market.

Cyber Risk

Risk Identification

The dangers posed by cyber-attacks continued to be a key risk to financial institutions such as Rothesay in 2024. It is of concern that much of the financial sector depends on a relatively small number of technology and cloud providers. In November 2024, the UK authorities finalised the new regime for the management of critical third parties, giving regulators direct tools to set resilience expectations.

Rothesay Response

We are committed to maintaining industry best practice, and adopt a forward-looking security approach that identifies and mitigates cyber threat. We proactively deploy a range of scanning and privacy-related security tools designed to identify cyber risks, themes, and issues. This includes: strong password rules and mandatory multi-factor authentication (MFA), governing access to on premise and cloud services; sensitive files moving only through encrypted secure file transfer channels with full audit trail; and always on Endpoint Detection & Response, patch management and vulnerability scanning keeping devices resilient against emerging threats. Advanced email and web security gateways inspect all inbound traffic, outbound email is scanned to prevent misclassified data leaving the firm, and URL filtering rules automatically block access to unapproved internet domains. These controls form part of our ISO 27001-certified Information Security Management System, which is reviewed annually by an independent auditor.

V. Review and assurance

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

Policy review to enable effective stewardship

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

Our Policy Framework

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

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

During 2024, as part of the policy annual review cycle, we undertook a review of our Risk Management Framework (RMF), Board Risk Appetite Statement and Investment & Credit Policy to ensure content remained comprehensive and appropriate. In addition, the Responsible Investment & Stewardship Policy was updated to capture our Controversial Oil and Gas revenue-based exclusion for the first time and to align content with our latest suite of disclosures.

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

Our Public Stewardship Policies

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

- Corporate Social Responsibility (CSR)
- Responsible Investment & Stewardship Policy (which includes our position statements)
- Modern Slavery Statements published on our website.
- The Group Financial Crime Policy, which sets out Rothesay's commitments to financial crime prevention including predicate offences such as modern slavery, human trafficking, bribery and corruption.

Internal and external assurance in relation to stewardship activities

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

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

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

Examples of Internal Assurance

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

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

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

Case Study – Internal Audit climate data advice

In 2024, Rothesay's Internal Audit team engaged with the Sustainability team to provide an advisory review of the modelling approach used to estimate climate data reported in the annual Climate report. This engagement included reviewing the design and documentation of the climate modelling approach, governance, and relevant procedures and controls.

The review concluded that the modelling approach and templates used by the Sustainability team were sufficiently robust for the level of complexity, and an effective review and governance process was in place.

External Assurance of our reporting

There is a significant level of internal oversight across the Group to provide assurance over our sustainability investment policies and practices and the success with which they are being implemented. Nevertheless, we have also engaged external consulting and legal support from Clifford Chance to provide independent assessments of our approach to sustainability and stewardship reporting including adherence with the new Financial Conduct Authority (FCA) anti-greenwashing rule.

The importance of high-quality sustainability reporting to ourselves and our stakeholders, led to a decision to seek independent limited assurance over selected Key Performance Indicators (KPIs) from Grant Thornton as to the accuracy of the data presented in our 2023 Climate Report (published June 2024).

Ensuring reporting is fair, balanced and understandable

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

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

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

VI. Client and beneficiary needs

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

Rothesay's Client Base & Investment Time Horizon

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

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

The needs of individual clients

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

Our commitment to deliver excellent service continues to be recognised by the Pension Administration Standards Association (PASA), the independent body dedicated to driving up standards in pension administration.

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

Communication to clients about our stewardship activities and outcomes

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

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

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

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

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

Determining and Understanding Client Needs

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

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

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

Case Study – Development of A4S Bulk Annuity Sustainability Survey (BASS)

As part of the bulk annuity selection process, advisers often help pension schemes assess the sustainability credentials of insurers like Rothesay through collecting information from questionnaires.

Historically, pension insurers received individual sustainability surveys from each advisor without a consistent approach on what questions were asked or the degree of detail required. This resulted in a significant amount of time spent by insurers adjusting existing disclosures without leading to a clear view on insurer performance across the industry.

As a signatory of Accounting for Sustainability (A4S) Sustainability Charter, we were actively involved in helping reduce this inconsistency through the creation of the A4S Bulk Annuity Sustainability Survey (BASS). This is a new questionnaire that brings together the core elements of adviser surveys into one annual process. This is expected to improve process efficiency and the level of information available for comparing insurer responses.

The BASS will be rolled out fully in 2025 with all insurer and adviser signatories of A4S having committed to using this from now on.

Aligning and Managing our Investment Portfolio in line with Client Needs

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

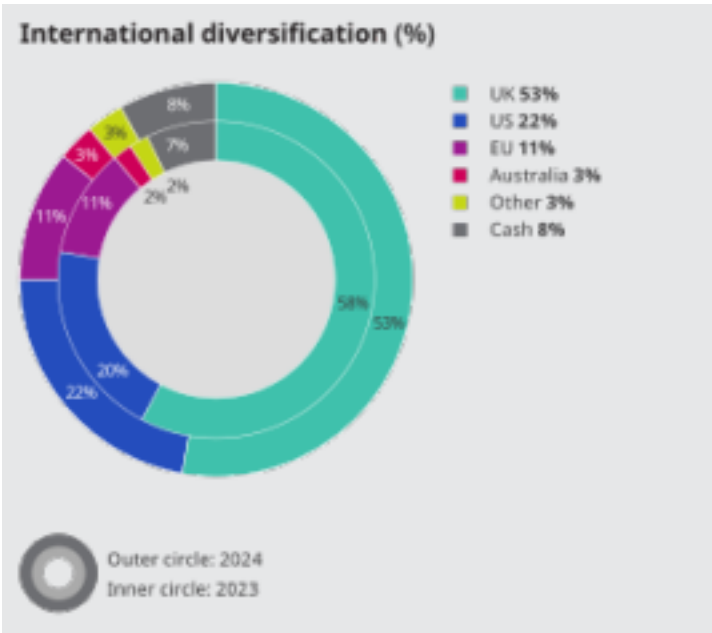
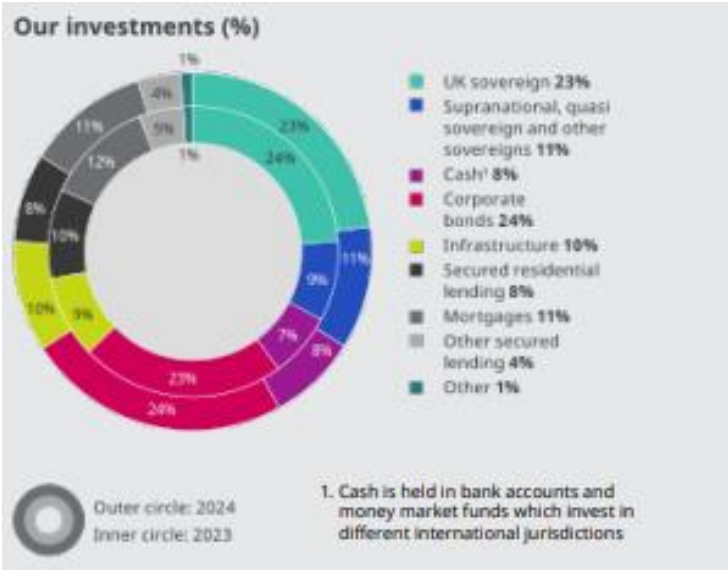
Through this approach, over half of our rated assets have a rating of AAA or AA and the portfolio can be divided into three broad categories:

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

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

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

The following charts taken from our annual accounts provide a breakdown of our investment portfolio as of 31 December 2024 and 31 December 2023 by sector and geography. Further detail on the management against stewardship priorities is provided in Principle VII.



VII. Stewardship, investment and ESG integration

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

Identifying, prioritising and managing material sustainability risk

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

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

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

Sustainability factors are broadly captured within our risk management frameworks. This includes screening for compliance with regulatory requirements for new investments (e.g. bribery and corruption or the Modern Slavery Act) and proactive surveillance of global news flows for material sustainability controversies. Sector deep dives are undertaken as necessary to monitor the most material sustainability considerations for relevant industries and monitor issuer performance over time. This analysis also supports identification of areas for priority engagement. We then consider any need to adjust our risk position according to the severity of any perceived impact to creditworthiness, spread, reputation, or other relevant characteristic.

Material Sustainability Issues

Our process for the identification, assessment and management of risks relies on a broad range of credit and sustainability factors. From a climate perspective, our framework considers physical, transition and liability risks. From a broader perspective, we consider, within our assessment of risk, involvement in commonly accepted controversial activities and material social and governance factors, such as human rights, diversity & inclusion and Board oversight. We utilise quantitative indices (e.g., the Carbon Intensity of the portfolio) to manage our overall portfolio, sector, and individual issuer exposures to sustainability risks. High Carbon Intensity issuers are considered in terms of their decarbonisation pathway and the impact on our climate commitments to support responsible stewardship through management of our risk.

As above, this is supplemented by sector and thematic deep dives on material topics to understand and manage our exposure, while our sustainability data provider supports portfolio screening for exposure to certain controversial products, or UN Global Compact violations. Where sustainability-related issues are current and deemed sufficiently material, issuers may be added to the Credit Watchlist² as per the existing risk framework. The assessment of relevant sustainability factors also forms part of the credit due diligence process for limit increase requests for existing issuers.

Case Study - Formalising Nature Considerations in our Framework

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

Our portfolio contains issuers with dependence and impacts on ecosystems. We already consider some nature impacts, for example pollution events, within our issuer-level assessment. However, understanding the full impact of nature risks remains challenging and is still in the early stages of development.

Given the nature of our business, we initially focus on our investment portfolio as, in a similar way to climate, our financing activities represent the greatest nature-related risks and opportunities, starting with our water and deforestation exposure.

We have engaged with industry groups to more closely follow developments in the assessment of these risks. In 2024 we joined the TNFD Forum to remain informed on the development of nature-related guidance. As part of the Climate Financial Reporting Forum (CFRF), we have also been actively involved in the Nature working group, contributing to the creation of their latest nature handbook for financial institutions.

Our work to embed nature considerations will be a multi-year process, during which we will build our capability and strategy to ensure we can appropriately manage and report on these risks within our overarching sustainability approach.

² Issuers placed on the Watchlist undergo additional monitoring, ensuring that additional controls are implemented, and concerns are reported and escalated to all relevant stakeholders.

Geographic Considerations in our stewardship and investment approach

Rothesay has a single fund and therefore it is not necessary to consider differences across funds. Our investment strategy for this fund is focused on investments in Organisation for Economic Co-operation and Development (OECD) countries. This reflects the management of our portfolio to protect policyholder interests and align with our sustainable and stewardship goals, due to the robust regulatory frameworks and transparency of these jurisdictions. Consideration of environmental and social concerns is also regularly included in regulatory and legislation expectations, encouraging public reporting and responsible business practices of companies operating in these regions. Rothesay's investment portfolio is focused on highly rated assets in the UK, US, EU, and Australia.

Transition Pathways: Regional Differences

Expected decarbonisation pathways vary based on jurisdiction. This variation acknowledges differences in available resources, existing infrastructure and economic conditions, which may impact the approach taken by a region to decarbonise. To reflect geographic differences appropriately, we undertake comparisons of peers within specific sectors and geographies to understand leaders and laggards not just within sectors globally, but also within operating regions. However, we ensure we consistently align with the Stewardship Code principles regardless of jurisdiction.

Different expectations also form part of our engagement approach. For example, for UK and European companies, we expect more advanced transition risk management, with greater investment in green technologies and wider adoption of science-based targets, given decarbonisation progress to date. For jurisdictions where decarbonisation faces more significant challenges, we prefer to invest in shorter duration and liquid bonds which allow us to divest if our expectations are not met in line with our target dates. In addition, geographic considerations are central to the appropriate identification and management of physical risk. This is most material for investments tied to locations with elevated exposure to physical risks such as flooding or wildfire and includes corporates with operations concentrated in susceptible regions. The exact nature of this risk will vary dependent on specific location of each asset.

Case Study – Analysing French Physical Risk

In 2024, we were approached with an opportunity to grow our residential property exposure to include French loans. Given these are fixed location assets, we needed to ensure our risk screening approach could appropriately assess physical climate risk impacts on property assets in this region.

In line with our framework, pre-deal analysis was conducted on the proposed portfolio using open-source vulnerability data for areas of high flood and wildfire risk. This analysis sought to identify what proportion of the portfolio value was deemed to be at high risk from physical risk events both today and under future climate scenarios and to understand what risk mitigants were in place (e.g. insurance, bank guarantees).

Asset Class Considerations in our stewardship and investment approach

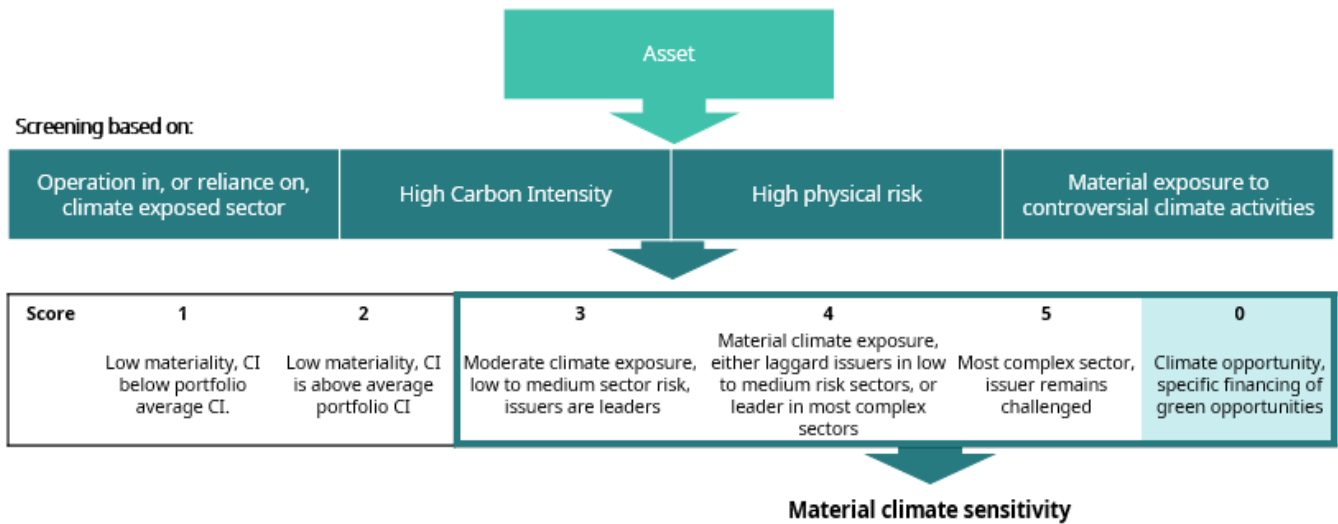
As mentioned above, Rothesay has a single fund and therefore it is not necessary to consider differences across funds. However, inherent differences between asset classes require the acknowledgement that there is not a one-size fits all approach for integration of sustainability considerations.

While we seek to create a holistic framework across our activities, the below highlights some of the differences in our approach to ensure risks are appropriately identified and managed. We also consider the overlay of physical risks from a geographic location where issuers or asset classes have fixed geographic footprints.

Corporates & Infrastructure

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

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



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

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

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

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

Case Study – Our Material Climate Score Data

Using the outlined framework, at YE 2024, 11.2% of in-scope portfolio issuers (MV basis) were allocated a material climate score. Our YoY increase in this number (up from 9.5% YE23) is consistent with our portfolio commitments, as we expect to see short-term fluctuations given our portfolio growth and strategy to deploy capital to carbon intensive industries with credible plans for transition as part of our long-term goals. The majority of these issuers continue to be assigned a score of 3. As discussed in Principle VIII, climate score forms part of our engagement selection criteria.

Case Study – Partnership with the National Wealth Fund on social housing retrofit

Rothesay has made a £150m commitment to a new unsecured debt facility for social housing retrofit launched by the National Wealth Fund (NWF) and The Housing Finance Corporation (THFC). The facility has been launched with an initial £150m financial guarantee from the NWF to support THFC to make long-term, unsecured loans to help registered providers (RPs) retrofit their social housing stock in the UK. As a result of the NWF's support, Rothesay has committed to provide THFC with 100% of the initial £150m investment, demonstrating how the NWF's guarantee can unlock long-term unsecured capital for RPs at pricing usually reserved for secured lending. Providing bond market investors with access to funding in this way will help accelerate the retrofit of social housing stock across the UK, significantly reducing both the sector's energy consumption and emissions.

Public Finance

Our exposure to public finance encompasses a wide array of high-quality and long-dated investment opportunities spanning sectors such as higher education, US non-profit healthcare, and government-linked investments across infrastructure and local authorities. Many of these investments have relatively low carbon emissions, which reduces their transition risk, and many provide critical facilities or vital social benefits. Where entities have fixed market locations, such as US non-profit healthcare, we consider potential physical risk and demographic shifts as part of our assessment.

Project Finance

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

Case Study – Water Resiliency Project Finance

In 2024, we were approached with an opportunity to finance a significant UK water infrastructure project seeking to increase the water resiliency in the project region. As an illiquid and long-dated transaction, it was important that we assessed the regulatory framework under which the project would operate, understand project delivery risk and the credit strength of the project alongside environmental performance.

Our analysis concluded that the project was well-positioned to retain strong credit performance over the course of our financing while also meeting its primary aim to strengthen water resilience, meaning it would be classified as a climate opportunity.

Property

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

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

Sovereigns

Our liquidity strategy calls for large holdings of Gilts, and our investment in Gilts and UK sovereign guaranteed bonds account for more than 80% of our sovereign exposure. The only other material exposure is to the US, which is also driven by our interest rate and liquidity management strategy. We have limited ability to alter our investment approach to these sectors as they support our liquidity needs, but to support climate outcomes in this asset class we led the Net Zero Asset Owner Alliance (NZAOA) initiative to promote disclosure and assessment of sovereign emissions and strategy.

Due diligence

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

All due diligence includes the consideration of sustainability factors, where this may either have a reputational impact or regulatory compliance implications. The factors considered depend on the sector concerned. We acknowledge that specific disclosure requirements relating to sustainability are currently still in their infancy, with those surrounding climate change being the most developed while those on wider sustainability themes yet to be implemented in the UK.

However, there are several areas of existing legislative and regulatory requirements that drive how we consider proposed investment opportunities from a sustainability perspective, including the Modern Slavery Act 2015, various legal and regulatory requirements relating to Financial Crime, UN Guiding Principles on business and human rights and OECD guidelines.

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

Typical indicators of increased financial crime risk include:

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

VIII. Monitoring managers and service providers

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

Our Approach to Monitoring Service Providers

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

Rothesay does not employ any external asset managers except those who manage our cash which is held at banks or rapid access money market funds, and small investments received as part of pension risk transfer transaction.

Our suppliers

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

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

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

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

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

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

Case Study – Assessing the footprint of our supply chain

Last year we furthered our work to assess our operational footprint by estimating the emissions for which our supply chain is responsible. Through engagement with the third-party Climate Impact Partners, we were able to enhance our disclosure of Scope 3 operational emissions to a broader range of GHG protocol categories including purchases goods & services. The results of this piece of work are published in our 2024 Climate report.

In 2025 we plan to expand on this analysis by further assessing the readiness of our critical suppliers to reach Net Zero, and also looking at their resilience to physical climate risks. Where we identify areas of concern, we will look to engage with them to rectify these issues.

Third Party Administrators (TPAs)

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

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

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

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

Case Study – Monitoring policy satisfaction

In 2024, we carried out two exercises conducted by third parties with the objective of understanding policyholder satisfaction and identifying ways to improve policyholder experience:

- Telephone conversations - we partnered with Quietroom to call policyholders (volunteered) who had either recently started to receive pension benefits from us or who had recently become a Rothesay policyholder and received a welcome pack including their individual policy document.
- Online surveys – we partnered with The Institute of Customer Service to carry out an online survey in order to understand customer satisfaction across a range of different processes, and provide a benchmark against the industry and other sectors.
- Aligned to the FCA’s guidance, this year we performed a deep-dive into the end-to-end journeys for policyholders identified as being vulnerable or having vulnerable circumstances to provide a greater understanding of policyholder experiences. We will use the data and additional monitoring to drive continuous improvements, which support and serve our policyholders.

These exercises provided valuable insight on both what we are doing well and areas where we can improve.

Specific sustainability service providers

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

The sustainability data universe is continuing to evolve, with better coverage, new metrics, and improved methodologies. As part of this, we continue to review the third-party data providers we use with reference to our own needs going forward alongside developing our internal capabilities. For example, we continue to monitor the development of nature-related datasets, as a topic area receiving increasing attention, to understand potential future use cases. We also understand that engagement is an important part of working with service providers and look to provide feedback and have open conversations with all our sustainability data providers.

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

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

Case Study – Engaging with a climate data provider

As mentioned previously, we use a range of data providers to provide us with data to mitigate the risk of data gaps should one vendor be unable to provide us with information. In 2024, one of our data vendors was experiencing technical difficulties from moving to a new data portal. In this instance we engaged with the provider to check that this was likely to only be an issue for one year, which they confirmed that it was, and sought to obtain the data from alternative sources. This supports the ongoing resilience of our data processes.

IX. Engagement

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

Rothesay's Engagement Strategy

As part of our mission to provide security to our policyholders, engagement to encourage more sustainable practices that yield long-term financial returns continues to be an important aspect of our approach to strategy. 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 over time. Our engagement covers a broad range of stakeholders including a particular focus on issuers within our investment portfolio alongside pension scheme trustee boards, industry groups, regulators and policyholders.

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

On an ongoing basis, we have interactions with the PRA, FCA and the Government on a broad range of industry, market and sustainability-related activities. These interactions are often carried out through industry group discussions. This includes ongoing engagement with the UK Government around stewardship themes including their Net Zero Strategy, with topics including implications for our industry and how we can meaningfully support this transition.

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

Following the publication of our Climate and Sustainability Reports each year, we also directly engage with most consultancy firms responsible for advising our corporate pension scheme trustees, as well as responding to surveys on the topic. Through these actions, we have been able to understand trustees' priorities and concerns, allowing us to develop more useful disclosures. We conduct our own brand awareness surveys, alternating annually between pension trustees and external consultants.

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

Rationale for our Sustainability Engagement Approach

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

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

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

Main Engagement Objectives

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

Case Study - Ongoing enhancements to our Climate Material Engagement

As outlined in our previous Stewardship Report, we have a clear process for the identification of issuers as part of our climate engagement framework. We engage with at least 20 distinct climate material issuers each year, which represent a material contribution to the Weighted Average Carbon Intensity (WACI) of our Publicly Traded Corporate Debt (PTCD) portfolio. In 2024, criteria for priority engagement included:

- high contribution to the WACI of our PTCD portfolio at issuer level;
- Climate Material issuers with no Science-based Targets Initiative (SBTi) target;
- evidence of backtracking or reduced ambition of targets; and
- elevated vulnerability to nature-related risks

The utilisation of these criteria helps ensure our engagement is focused, with a specific desired action by the issuer (e.g. greater granularity of disclosure, commitment to setting science-based targets, commitment to publishing a transition plan). Outputs from this engagement have also supported our understanding of the potential decarbonisation pathway of our portfolio.

Responsible Engagement Variations by Asset Class

Public Corporate Bonds

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

Case Study – Nature-based engagement

In 2024, as part of our plans to formally embed nature within our sustainability framework, we conducted specific nature-related engagements with identified corporate issuers in our portfolio.

The aim of these engagements was to build our capabilities and, where relevant, enhance our risk assessment of nature impacts within our portfolio. Targeted issuers were identified through third-party data screening for material exposure. Questions focused on issuer nature risk awareness, vulnerability assessment approaches and mitigation measures. This included where such risks occur within an issuer's supply chain. In 2024, nature engagements focused on issues relating to water intensity and deforestation.

As outlined in our engagement framework, we see sustainability engagement as a multi-year activity. We will continue to enhance our approach as our work in this area develops.

Property Portfolio

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

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

Sovereign Bonds & Public Finance

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

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

Case Study: Improving our data to support decision making

The credibility of our metrics is dependent on access to high-quality data. We continue to take steps to improve the emission data used in our metrics. This is achieved through a number of actions including engagement with our data providers and directly with our issuers to encourage greater data granularity. Our engagement framework considers areas of greater emission materiality to identify priority areas for engagement.

Identifying data gaps has also been an outcome from the ongoing development of our Net Zero Transition Plan. For example, our US Not For Profit Healthcare asset class has a fixed building footprint and high energy needs, so the lack of disclosure on building efficiency and primary heating source can limit transition modelling. One of our larger holdings within this sector was therefore identified for engagement.

The engagement explained why this information was important to our risk assessment and sought to understand what data was accessible and any barriers to sharing such information. While the issuer was not able to provide property specific information, they were able to provide greater clarity on their current overall property performance and heating approach which we can utilise in our internal assessment. We will continue to engage to encourage further granularity, while using information currently accessible to support our transition plan work.

Case Study: Multi-year engagement leads to successful data provision

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

As a result of continued engagement, one issuer provided asset-level data in 2024, and has committed to do so on an annual basis. Access to this verified data increases the data quality of our reported metrics for a climate material issuer. We continue to engage with a number of other issuers where we deem gaining access to reported data would increase data quality and is feasible to obtain.

Case Study: Money Market Funds

We record our money market funds alignment with the Sustainable Finance Disclosure Regulation (SFDR). In 2024, most of our funds remained Article 8 aligned. During the onboarding of a new fund, consideration of their SFDR alignment (Article 8) was included in information shared with Credit Committee.

Case Study: Macro Stewardship

When appropriate, Rothesay engages with the government, our regulators and other relevant external stakeholders to exchange views thoughtfully on key issues. In particular, we look to participate in all relevant regulatory and Government consultations where they may directly or indirectly impact our business, the wider market or our policyholder. This includes on a number of topics relating to sustainability considerations.

We are committed to working with the Government to continue to grow our investment in UK productive assets along with our significant and long-term support for the UK economy. As persistent holders of UK sovereign debt we also provide meaningful support to the Gilt market. We work with the Government, and Government-supported bodies like National Wealth Fund, to explore new public-private partnerships which could facilitate our sector's investment in innovative and nascent types of productive asset, including low-carbon energy generation technologies, which UK life insurers have traditionally been able to invest in at scale.

Geographic Considerations in our Engagement Approach

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

Case Study – Operational Resiliency Based on Geographical Footprint

Given an ongoing increase in physical risk events and focus on energy security, the operational resilience of utility issuers within our portfolio was a particular focus in 2024. One engagement focused on a public US utility with operations in areas of elevated wildfire risk. The purpose of the engagement was to further understand the issuer's resiliency strategy given events of increasing frequency and severity in its service area and limited disclosure of their capital expenditure plans for this risk.

The issuer provided us with additional information on their wildfire mitigation programme, including how a specific capital expenditure commitment was being used across grid hardening, vegetation management and new technological monitoring systems. This included the identification and subsequent hardening of the majority of their assets deemed high-risk. The remaining assets are due to be completed over the next year.

By gaining additional insight into their plans and progress for strengthening grid resilience, we are better positioned to assess the vulnerability of their infrastructure and potential service reliability as part of our credit risk assessment. It was deemed the entity had made sufficient progress against targets to have mitigated some of this risk, but ongoing monitoring is required to ensure they remain resilient.

Sustainability Engagement Progress & Outcomes in 2024

We have created a specific sustainability engagement tracker to record each engagement undertaken under this framework. This document records the rationale for engagement, entity type (and, if relevant, sector), method of engagement and outcome of engagement including any escalation requirements.

On an annual basis, we report core themes of our engagements and outcomes to senior management via Sustainability Committee to track effectiveness of our activities, progress against our engagement commitments and to identify areas for ongoing attention and opportunities future improvement.

In addition to BAU engagements conducted with issuers, during 2024 we recorded 54 specific issuer engagements relating to sustainability topics. This does not include broader policy and regulatory engagement activities which are ongoing throughout the year. These predominately focused on climate interactions to align with our commitment to engage with entities having the greatest climate relevance to our portfolio.

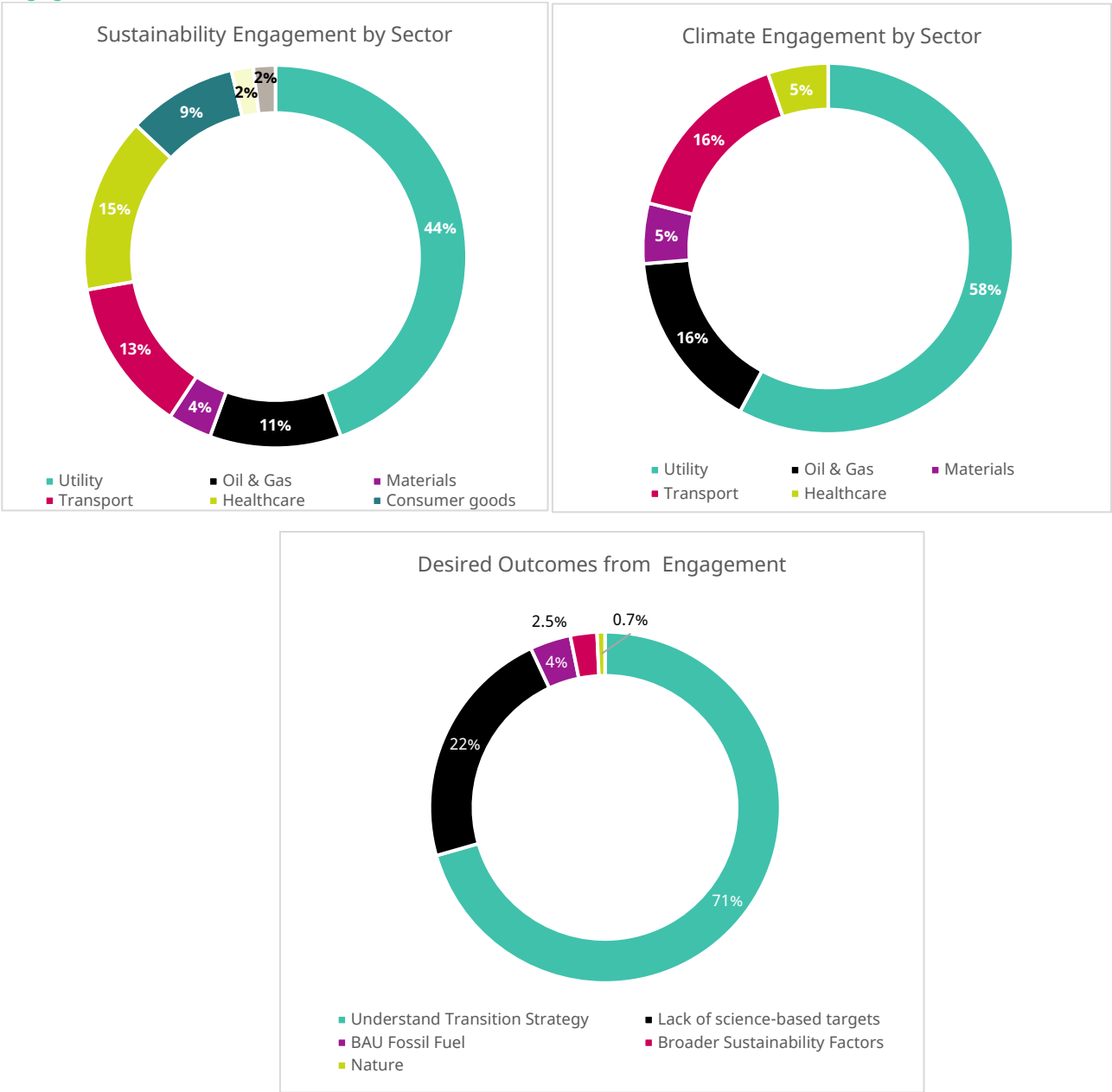
We select entities for climate engagement based upon a combination of high current emissions or inadequate reduction targets. Our engagement once more exceeded our target to engage with at least 20 of our most emission intensive companies within our PTCF sub-portfolio, with a more specific outcome driven approach focusing on topics such as SBTi alignment and fossil fuel exposure.

Our engagements received an 89% response rate continuing the high responsiveness to our activities. In many cases, it can be challenging to accurately assess whether a lack of response to our engagement reflects entity views on sustainability issues or prioritisation of more material stakeholders.

However, post our engagements on specific topics, such as coal exposure and disclosure best practice, several entities have published updates to their plans to align more closely with our outlined expectations shared during engagement. This typically included clarity on accelerated coal exit plans, a key target for our engagement, justifying our engagement first approach. Whilst we cannot attribute this change solely to our engagement, it indicates that our interactions on sustainability-related topics may contribute to entity behaviour change and greater disclosure.

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

Engagement Statistics



X. Collaborative engagement

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

Rothesay's Collaborative Engagement Strategy

Along with our bilateral engagement approach, we seek to participate in some collaborative engagement efforts. We generally conduct this through formal industry groups focused on specific areas, where we determine there is relevance to our business and that anti-trust concerns are absent. We are particularly keen to join groups whose goal is to influence and assist sectors that are not yet mature in their sustainability reporting approaches and could benefit from combined industry experience to support better adoption. We are also keen that the groups reflect the interest of debt holders, as many well-established collaboration initiatives are predominantly equity led. This ensures that our collaborative engagement has a genuine impact.

As outlined above, our strategy in this area is shaped by the requirements of our regulators and the needs of our pension trustees, alongside a desire to effectively manage the risks that affect our business.

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

Below we list some examples of collaborations within which we believe we have had a significant influence. Other examples can be found in our 2023 Stewardship Report:

Case Study – NZAOA Sovereign Working Group Lead

We have been particularly active as a member of the Net Zero Asset Owner Alliance contributing to multiple workstreams such as: the Policy; the Engagement; and the Monitoring, Reporting and Verification (MRV) work tracks. Through this initiative we have sought to assist in the development of publications and industry best practice. One area of particular focus has been the treatment of Sovereign assets.

While we acknowledge that we have limited ability to alter our investment approach to the Sovereign asset class as it supports our liquidity needs, encouraging sovereign decarbonisation is critical. Our Head of Investment Strategy continues to be the co-lead of the NZAOA Sovereign working group, coordinating activity such as the ongoing development of the Sovereign reporting standard in the Target Setting Protocol that was published in 2024. Work is ongoing to make NZAOA/Assessing Sovereign Climate-Related Opportunities and Risks (ASCOR) indicators an increasingly useful data point for Sovereigns. Through co-leading this work, we are actively supporting the increase in reliable data and robust methodology for this asset class.

Case Study – ABI Stewardship-related Activities

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

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

In 2024, Rothesay collaborated with peers in the ABI's Investment Delivery Forum in an attempt to foster the financing of productive UK infrastructure with special reference to the opportunities afforded by the new Solvency UK regime. To this end, members of our investment team have travelled on numerous occasions to visit businesses outside London in forums convened by the relevant Combined Authorities such as Manchester, Liverpool and Edinburgh.

XI. Escalation

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

Rothesay's Escalation Approach for Stewardship Activities

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

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

Variations in Escalation: Asset Class and Jurisdiction Considerations

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

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

Rationale and Objectives for Escalation

In 2024, we made no material changes to our escalation approach with the same rationale in place for why initial engagement may be escalated.

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

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

The liquidity of our corporate bond portfolio allows for us to reduce or not increase our holdings where an entity's progress indicates growing unmanaged risk, recognising the challenges and opportunities they face, and considering their responses to our engagement. In cases where engagement confirms that a position we hold is outside of stated policy, this will be escalated to SC and ERC for discussion and the entity noted as misaligned with our Responsible Investment & Stewardship strategy. A plan will be established specifying a time scale over which the position must be reduced.

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

As a central part of our business, we often receive assets as part of new pension risk transfers. We received a number of new risk transfers in 2024. Our underwriting process for these transactions includes a review of any new assets in respect of their sustainability risk alongside their wider credit risks and valuation.

In 2024, we have continued to complete this review for all new transfers with assets. The review includes:

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

Case Study – UK Water

As discussed in Principle IV, in 2024 concerns over the environmental and financial performance of the UK water sector intensified. These concerns included aging infrastructure, pollution incidents, and financial pressures alongside growing concerns about customer satisfaction and the sustainability of UK water resources.

While Rothesay's exposure to the UK water sector is relatively small, in line with our risk management approach, persistent underperformers in this sector have been monitored and as part of our Credit watchlist. As challenges remained and worsened, we engaged with the Government, regulators and companies emphasising our concerns around the financial stability of the sector. This engagement also involved internal discussion amongst internal senior stakeholders including the Executive Committee and the Board to determine appropriate next steps.

While Rothesay is committed to supporting the UK's critical infrastructure, our overarching responsibility is the provision of security to our policyholders. This escalation enabled an informed conversation to be held around the appropriate strategy for investment in this sector going forward recognising that performance and challenges vary across water companies, with opportunities as well as challenges arising from the ongoing sector reforms.

XII. Exercising rights and responsibilities

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

Variations in our Exercise of our Rights and Responsibilities

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

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

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

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

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

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

As part of our trade due diligence for less liquid private placements and bilateral loans, we review prospectus and transaction documents to ensure all terms align with our investment principles and that relevant sustainability themes are identified. This includes utilising both internal and external legal expertise to review

structure and specific terms. Where applicable, we seek additional information and clarity and may do this either in writing or during investment calls with borrower management.

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

Case Study – Sustainable-tagged Investments

In 2024, 2.8% of our portfolio was allocated to sustainable-tagged investments including 'Green' and 'Sustainability-linked' bonds. As outlined in Principle VII we seek to assess the credentials of any sustainable bonds we purchase in line with best practice. As one of our self-imposed responsibilities as a green bond holder, we check that full allocation to such projects had been completed.

A number of new bonds we considered in 2024 were marketed as green bonds. As per our framework, we assessed whether the specific terms of these bonds fully aligned with International Capital Market Association (ICMA) Green Bond Principles and whether it received external verification. One bond was identified as not having received external verification and therefore was excluded from our internal green bond definition.

Case Study – Waivers Committee Case

Our waivers committee reviews requests to make adjustments to legal rights and covenants contained within investment documentation. The committee seeks to consider the impact of these requests on the security of our investment with the intention to support reasonable requests which promote the long-term viability of the issuer or sector.

We received a request from a housing association to grant a multi-year carve-out to their interest cover covenant, enabling them to re-prioritise spending on fire safety and decarbonisation. These are sector-wide priorities, and the carve-out would support the acceleration of essential works and promote proactive, high-quality stock management. The temporary covenant amendment was approved in recognition of the issuer's strong credit quality, the limited credit risk, and the broader objective of enabling housing associations to deliver mandatory improvements and secure the best outcomes for tenants.

Glossary

Term	Definition
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Carbon Intensity (CI - revenue basis)	Carbon dioxide equivalent emissions per million dollars of revenue (CO ₂ e/\$M). This metric measures the carbon efficiency of a company's economic output.
Carbon Neutral	Carbon dioxide emissions are balanced by carbon removed through activities such as carbon sinks or permanent carbon removal technologies such as direct air capture.
Carbon Offsets	An action intended to compensate for the emission of carbon dioxide into the atmosphere as a result of industrial or other human activity, especially when quantified and traded as part of a commercial scheme.
Clients and Beneficiaries	A person, company or group to whom a firm provides or intends to provide a service. For Rothesay this includes a range of stakeholders including our individual policyholders, and the trustee boards that represent their interests during a pension risk transfer transaction.
climate material	Lowercase usage Indicates an entity/sector/activity that has a greater likelihood of having a significant impact on our exposure to climate risk. climate material (lower case) is used to indicate the broader approach to assessment of materiality assessment.
Climate Material	Uppercase usage - Indicates an entity/sector/activity that after review under Rothesay's sustainability framework has been deemed to have significant exposure to climate risk. Entities deemed to be Climate Material (uppercase) have specific characteristics that increase exposure to impacts from climate change and required additional monitoring.
Climate Scenario	A hypothetical but realistic representation of the future environment constructed to support investigation of the potential impacts of climate change.
climate opportunities / climate solutions	Lowercase usage - General term to discuss activities that relate to efforts to mitigate and adapt to climate change such as adoption of low-emission energy sources and development of new products/services to support climate transition and build resilience.
Climate Opportunities	Uppercase usage - Indicates an entity/sector/activity that after review under Rothesay's sustainability framework has been deemed to meet the criteria of specifically financing green opportunities, such as renewable energy investments and low carbon energy.
CO₂e	Carbon dioxide equivalent - greenhouse gases (GHGs) all have varying warming potentials and therefore in order to report one metric, other GHGs are converted to CO ₂ equivalent.
Consumer Duty	An FCA requirement which establishes a principle and rules requiring firms to deliver good outcomes for retail customers.
Corporate Social Responsibility	Management approach concept that seeks to encourage high standards of ethics and professionalism and positively impacts society through its culture and business processes.
Engagement	Interactions and dialogue conducted between an investor and a current or potential investee (e.g. company), or a non-issuer stakeholder (e.g. an external investment manager or policy maker) to gain information or influence investee practice or disclosure.
Escalation	Escalation in the context of stewardship is the approach an investor takes if initial stewardship approaches are unsuccessful at achieving its objectives over a given period. Escalation differs by asset class and issuer type, but generally involves the use of increasingly assertive stewardship tools and activities, including reducing or exiting an investment.
ESG	Short for Environmental, Social and Governance – is a set of standards measuring a business's impact on society, the environment, and the transparency and accountability of their governance framework. Environmental factors focus on how an entity considers the environment, social factors focus on how an entity considers societal impacts, including employees, communities and stakeholders, and governance factors focus on an entity's operational approach and leadership.
Financed Emissions	The emissions associated with Rothesay's investments, in line with the GHG Protocol Scope 3 Category 15 definition.
Green	The concept that some activities are beneficial for the physical environment, based on an assessment against an appropriate set of criteria or benchmarks.

Green Bond	Bond instrument whose proceeds will be applied exclusively to finance or refinance, in part or in full, new and/or existing projects which contribute to stated and verified environmental objectives.
Greenhouse Gas (GHG) Emissions	Gases that contribute to the greenhouse effect by trapping heat in the earth's atmosphere.
Implied Temperature Rise (ITR)	A forward-looking temperature alignment metric that indicates how companies and investment portfolios align to global climate targets. It compares an entity/portfolio's projected greenhouse gas emissions against a specific carbon budget and calculates an estimated overshoot or undershoot. This overshoot or undershoot is expressed in °C.
Infrastructure	Investments in infrastructure such as water, energy and transportation.
Material ESG / Climate Factors	ESG factors with a substantial impact on the current and future financial, economic, reputational, and legal prospects of an issuer, security, investment or asset class. This term may also refer to factors related to significant impacts on people or the planet. At a corporate or issuer level, the disclosure of a material ESG factor would be reasonably expected by investors, as its omission, misstatement or obscuring could reasonably be expected to influence decisions that investors make on the basis of that reporting.
Net Zero	A state in which the human derived GHGs going into the atmosphere (anthropogenic emissions) are balanced by their removal out of the atmosphere (carbon sinks/removal).
Own risk and solvency assessment (ORSA)	An assessment to the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise Rothesay's business plans.
Physical Climate Risk	Risks resulting from climatic events including acute and chronic impacts. Acute risks include droughts, floods, and wildfires. Chronic risks include rising temperatures, sea level rise, and an accelerating loss of biodiversity.
Policyholder	Rothesay generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by Rothesay regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
Responsible Investment	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.
Science-Based Target	A target, usually relating to emission reductions, which has been developed in line with scientific pathways to keep global warming below 2°C from pre-industrial levels.
Scope 1 Emissions	Measured in tCO ₂ e annually. Direct emissions that occur from sources controlled by the entity in question. For example, emissions from a gas-fired boiler on company premises.
Scope 2 Emissions	Measured in tCO ₂ e annually. Indirect emissions largely associated with the purchase of electricity by the entity in question to operate their business and buildings including purchased electricity, municipal heating and cooling. Scope 2 emissions can be calculated as Location based - operational emissions using an average Emissions Intensity for the energy system on which energy consumption occurs (for example the Emissions Intensity of the local electricity grid) - or Market based - operational emissions using actual energy consumption of the entity (for example giving credit for renewable energy or green electricity tariffs sourced by the company).
Scope 3 Emissions	Measured in tCO ₂ e annually. Emissions that are the result of activities elsewhere in the value chain of the entity in question. These include emissions produced indirectly, through purchased goods and services, business travel, employee commuting and investments. The Scope 3 emissions of one entity are the Scope 1 and 2 emissions of other entities.
SM&CR	Senior Managers & Certification Regime
Stewardship	The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
Sustainability	A dynamic process that guarantees the persistence of natural and human systems in an equitable manner.
Sustainable	An activity that causes, or is made in a way that causes, little or no damage to the environment and are therefore able to continue for a long time.

Sustainability Risks	An environmental, social or governance (ESG) event or impact that could cause a negative impact including financial and reputational.
Temperature Alignment	A forward-looking metric that attempts to convey the future trajectory of greenhouse gas emissions of a given entity or portfolio in terms of its estimated global temperature rise.
Transition Climate Risk	Risks associated with the requirements for an entity to manage and adapt to changes related to reduction in greenhouse gas emissions and transition to a low-carbon economy.
Transition Plan	A plan that sets out a company's approach for how it will align its activities to Net Zero.
Weighted Average Carbon Intensity (WACI)	WACI can be considered at a company, sector or portfolio level. It is a measure of a portfolio's exposure to carbon intensive companies, where each position is weighted reflecting size of position in our portfolio.

Organisations

Term	Definition
A4S	Accounting for Sustainability – organisation that seeks to inspire action by finance leaders to drive a fundamental shift towards resilient business models and a sustainable economy.
ASCOR	Assessing Sovereign Climate-Related Opportunities and Risk – this project was established to create a tool giving investors a common understanding of sovereign exposure to climate risk and of how governments plan to transition to a low-carbon economy.
FCA	Financial Conduct Authority – the UK regulatory body that regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.
FRC	Financial Reporting Council – a non-departmental public body that is responsible for the regulation of auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.
ICMA	International Capital Market Association – a trade association that works to promote the development of international capital and securities markets.
ISSB	The International Sustainability Standards Board – established by the International Financial Reporting Standard (IFRS) Foundation at COP 26. It has developed global sustainability standards, to form a global baseline of sustainability information to support needs of investors. It includes IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related disclosures.
NZAOA	UN-Convened Net Zero Asset Owner Alliance - a member-led initiative of institutional investors committed to transitioning their investment portfolios to Net Zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C.
PRA	Prudential Regulation Authority – the PRA is the UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
SBTi	Science-based Targets Initiative - SBTi is an organisation established to support companies to set emission reduction targets in line with the reductions required to limit global temperature rise to 1.5°C. SBTi provides assurance that entities' targets are aligned with prevailing scientific goals for the relevant sector.
TCFD	Taskforce for Climate-related Financial Disclosures - an international initiative established by the Financial Stability Board (FSB) in 2015 to develop recommendations for disclosing climate-related financial risks and opportunities in various sectors of the economy.
TNFD	Taskforce for Nature-related Financial Disclosures - an international initiative that provides a framework for how organizations can address nature-based environmental risks and opportunities with the ultimate goal of channelling capital flows into positive action.
UN PRI	The UN Principles for Responsible Investment - an international organisation that works to promote the incorporation of environmental, social, and corporate governance factors (ESG) into investment decision-making.

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