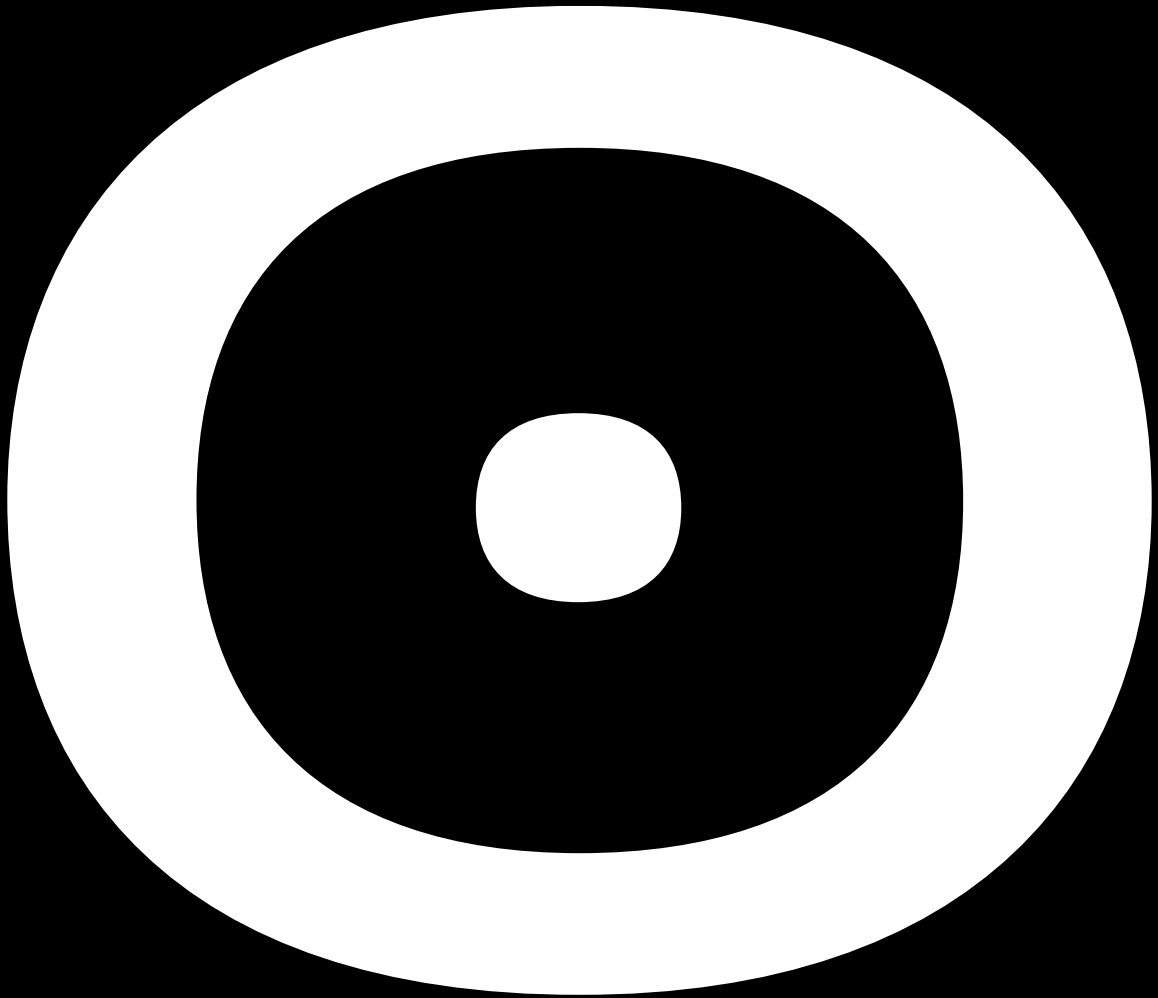


Rothestay



# Responsible Investment and Stewardship Policy

Rothestay - External

2026

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# I. Purpose and objectives

## About Rothesay

Rothesay is the UK's largest largest 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 investments predominately target high quality investment grade debt and direct loans, in developed countries. Our long-term approach and in-house asset management supports our ability to consistently identify and manage our principal risks

As a pension insurer, we may receive assets as part of a pension risk transfer transaction. On receipt of these positions, the assets are managed according to the same principles and processes as the investments we originate directly ourselves.

## Document Philosophy

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

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

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

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

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

Rothesay recognises the need to consider the impacts of sustainability risks through our investment portfolio, as well as the direct impacts of our own operations. This policy therefore mandates consideration of both these aspects in our portfolio management. Rothesay's approach is focused on real-world impact and supporting the transition to a low carbon economy in a sustainable, risk-focused manner. Engagement with issuers is a central part of our strategy. To maintain transparency and meet stakeholder expectations, Rothesay reports on its progress against its sustainability objectives on an annual basis, including publishing Climate and Stewardship reports.

## II. Application

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

### Scope

The principles of this policy apply across all asset classes and geographies in which we invest. Our position statements apply to companies involved in specific activities detailed in section IV.

This policy provides guidance to investment and risk teams for implementing our general investment objectives, which are defined as:

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

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

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

Market practice, regulatory expectations, and governmental policy are evolving rapidly and therefore this policy will continue to develop alongside these changing expectations. It will be regularly reviewed and updated as required.

## **Roles & Responsibilities**

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

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

## **Sustainability Screening of Liability Side Transactions**

Our transactions with pension scheme trustees, and the transfer of assets and liabilities as part of those transactions, are central to Rothesay's business model. Before offering to transact with pension scheme trustees, we consider sustainability criteria, including both the current and former operations of the scheme sponsor, to evaluate alignment with our sustainability objectives. Furthermore, attention is paid to how much and to whom any surplus will be paid and what is the likely use of surplus. Nonetheless, our overarching view is that people deserve a safe and secure income in retirement and consequently it is likely to be rare that sustainability considerations relating to the sponsor itself prevent us from securing the benefits of former employees of a company. As noted in 'About Rothesay' section above, any assets received as part of a pension risk transfer transaction are managed according to the same principles as the investments we originate directly.

# III. Responsible Investment Framework

## Sustainability Commitments

Rothestay has set out sustainability commitments that reflect our objectives for considering sustainability within our investment decision-making and risk management framework.

1. We will transition our investment portfolio to Net Zero greenhouse gas emissions by 2050.<sup>1</sup>
2. We 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 by 2050.<sup>2</sup>
3. To track our progress towards this net zero target we have also committed to a:
  - a. 50% reduction in the Carbon Intensity of our Publicly Traded Corporate Debt (PTCD) portfolio by 2030, vs the baseline set in 2020.
  - b. 50% reduction in the Carbon Intensity of our total portfolio by 2030, vs the same baseline as above.
4. We actively seek out opportunities to match our long-term investment horizon with investments that support our sustainability risk strategy.
5. 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.
6. We will incorporate broader sustainability factors into our investment analysis, decision-making and engagement processes to appropriately consider Social & Governance and wider Environmental factors, as well as climate change.
7. We recognise the investment required by high emitters to transition to a low carbon future. We will therefore seek opportunities to finance high emission companies where they have robust and credible transition plans, recognising that this may increase our Carbon Intensity in the short term.
8. We actively seek to engage with issuers on sustainability topics, engaging with at least 20 of our most carbon intensive issuers within our corporate portfolio. This helps encourage emission reduction activity, as we look to reduce our portfolio's Carbon Intensity over the longer term.

To support our progress, we have partnered with several organisations aligned with our climate goals. We are also a supporter of the Taskforce for Climate-related Financial Disclosures (TCFD) and a member of the Bank of England's Climate Financial Risk Forum (CFRF).

## Sustainability Integration

Sustainability or 'ESG' factors refer to a broad range of factors that may on their own, or in combination, influence the risk/return characteristics of our investments. As part of our investment and lending decisions, we will consider those factors that are material from a risk perspective.

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<sup>1</sup> Our Net Zero commitment is science-aligned, focusing on taking actions that are consistent where possible with the Paris Agreement and seek to reduce emissions to a small amount of residual emissions that can be credibly 'offset'.

<sup>2</sup> We acknowledge comments from scientific groups, such as the UNEP, that the world is on track to exceed this temperature target by 2035 and continue to manage our portfolio to support the limitation of global warming.

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

Our risk-based approach requires the application of clear risk management frameworks at point of purchase or acquisition via pension risk transfers, and through the duration of the investment. The treatment of sustainability risk has been specifically embedded within existing frameworks, with heightened scrutiny triggered as sustainability risk increases. To aid the investigation of these issues and to screen investments in line with our position statements, Rothesay utilise third-party data providers, including sustainability data from MSCI and carbon emissions data provided by Bloomberg and CDP.

From a climate perspective, our climate score creates a consistent way to assess an issuer's climate transition risk, allow comparability between issuers and to trigger additional governance. The scores reflect factors such as current emissions and sector challenges, overlaying issuer responses in terms of targets, track record and progress towards low carbon technology.

To assess physical risk exposure, a qualitative assessment is conducted on fixed location assets, capturing all forms of property investments as well as infrastructure assets. This assessment involves asset-level address data screening using open-source data to identify properties' current vulnerability to weather hazards and associated performance impacts with a consideration for mitigants. Rothesay has also taken specific measures to integrate flood risk in our underwriting process for residential mortgages.

Material social and governance factors are also considered as part of our investment process, including wider sustainability risks, such as bribery and corruption, United Nations Global Compact Violation, impacts on community, labour rights and biodiversity.

Strategies such as shorter duration and liquid investment may be considered for higher risk issuers to ensure we retain more flexibility to manage risk in these circumstances. Investments with material sustainability concerns are added to our internal watch list. In addition, at least monthly a range of metrics monitoring for any changes in concentration to elevated sustainability risks are shared with Senior Executives.

We are conscious of the importance of supporting a 'just transition'. This reflects the need for low carbon transition to occur whilst minimising the negative societal impacts of this change. Early transparency on transition plans increases credibility around climate risk management and allows more time for companies to manage employees and community impacts, and our engagement encourages these outcomes.

## **Scenario Analysis**

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

We use relevant climate narratives to screen individual and pools of assets for resilience to climate impacts. Where climate narratives identify material climate risk in our business, we have utilised climate third party tools to provide a more detailed assessment of the scale and source of the potential risk (physical or transition) over time and under differing climate scenarios. In addition to trade assessment, these tools are used to assess the scale and source of potential risks across our portfolio, and are reported in our Climate Report. Further information can be found in our latest Climate report.

# IV. Position Statements

As outlined, Rothesay's responsible investment and stewardship strategy takes a case-by-case risk-based analysis approach. This involves considering the individual characteristics of our investments, including climate factors, to support appropriate risk-based decision making. Driven by this risk-based assessment, there are several areas, relating to fossil fuels and certain weapon-related activities, where we have explicit exclusions in relation to our investment appetite. The below sections outline the rationale for these exclusions in more detail. We note that sustainability risk management is evolving rapidly, so our strategy will continue to develop to ensure we protect our policyholders and manage to our long-term sustainability and climate commitments.

## Implementation Approach

Our specific position statements are applied to companies within our investment portfolio. We are reliant on third party suppliers such as MSCI and maintain best endeavours to invest in line with our stated exclusions and investment objectives based on the information available to us.

If we identify investments which breach our exclusion policies post origination, we will endeavour to exit the investment within 90 days, where this is possible. Certain circumstances may prevent this occurring, for example for highly illiquid positions, for investments which appear on our internal restricted lists or where we hold sovereign investments for hedging and liquidity risk management purposes. Where such an occasion materialises, we document the barrier to exit, include in our engagement process if appropriate and continue to closely monitor the position and potential for divestment.

## Thermal Coal

### Background and Rationale for Position

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

### Position Statement

- Rothesay does not knowingly support the financing of any new direct thermal coal activity by a company, including funding of new thermal coal plants or continuation with plans in preconstruction.

- Where issuers currently have thermal coal exposure, we actively target those with clear plans to have minimal coal exposure by the commonly accepted coal exit timeframes of 2030 in OECD countries.
- Where an entity has indirect exposure to thermal coal, for example a purely metallurgical coal extraction company which has thermal coal as a by-product or other support services, additional review will be undertaken to understand whether the materiality of exposure indicates elevated risk.
- We engage with higher coal exposed entities to actively promote coal exit plans in line with outlined expectations on a regular basis.
- Continued inclusion of an issuer in our portfolio depends upon their engagement response and development of these clear targets to support the required reduction in coal exposure.

## **Oil and Gas**

### **Background and Rationale for Position**

- We acknowledge the interconnectivity of sustainability issues relating to activities such as reduction in oil & gas activities as well as considerations of energy security. As part of our oil & gas position, we seek to understand, through analysis and issuer engagement, an issuer's or project's transition plans to determine appropriateness of their decarbonisation plans.
- Rothesay screens the portfolio and any new investments using a third-party service provider to support exclusions in line with the following oil and gas criteria.

### **Position Statement**

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

## **Controversial Weapons**

### **Background and Rationale for Position**

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

## Position Statement

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

- a) Cluster weapons
- b) Mines and Booby Traps
- c) Biological weapons
- d) Chemical weapons

Rothsay will not knowingly finance any company where:

- such company is involved in the production, selling and/or distribution of (parts for) controversial weapons; AND
- where such involvement concerns the core weapon system, or components/services of the core weapon system that are tailor-made and essential for the lethal use of the weapon.

## V. Engagement & Escalation

We are dedicated to delivering positive outcomes for all our stakeholders and given the long-term nature of our business, we utilise engagement to ensure we maintain an appropriate understanding of risks to which our investments are exposed. In addition, Rothesay is committed to responsible engagement with firms in our portfolio. This means our preferred approach where we identify sustainability related issues is for engagement rather than immediate divestment, to support behaviour improvement.

As we do not use external asset managers, all our engagement is coordinated by our dedicated sustainability analysts and conducted in collaboration with members of our Credit Risk and Asset Management teams. This ensures our engagement efforts can be appropriately resourced, be proactive, and are focused on material factors where we can have the most influence and ensure appropriate escalation to support our risk management approach. Along with our bilateral engagement approach, we occasionally seek to participate in collaborative engagement efforts where we determine there is relevance to our portfolio and that anti-trust concerns are absent.

Our approach to engagement will continue to develop as guidance and / or regulatory requirements regarding disclosures evolve, and our approach matures. Further information can be found in our latest Stewardship Report.

## VI. Reporting

To maintain transparency and meet stakeholder expectations, we report annually on our progress against our sustainability objectives. This includes an annual Climate report that outlines progress against our Pathway to Net Zero strategy, including updates against our key environmental commitments. This is reported in line with the TCFD framework. We also report on where we have applied our stewardship approach as part of our annual Stewardship reporting.

To monitor performance against our sustainability goals, we have developed detailed internal reporting which is circulated to management and the Board. This includes regular Climate Metric reporting which provides commentary on changes in Rothesay's Carbon Intensity (CI) and Carbon Footprint due to recent trades and indicates progress against our CI reduction targets. Updates on broader climate and sustainability metrics, using MSCI data outputs, are also circulated monthly.

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

We have engaged external consulting and legal support to provide independent assessments of our approach to sustainability reporting and obtained formal external assurance on our carbon emissions data and methodology. This reflects the importance we place on high-quality reporting to meet the needs of our stakeholders.

# VII. Conflicts of Interest

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

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

Potential conflicts arise in two ways:

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

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

Rothesay takes the following approach for all conflicts of interest:

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

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

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

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