Rothesay

Responsible Investment and Stewardship Policy

Rothesay - External

2025

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I. Purpose and objectives

About Rothesay

Rothesay is the largest UK's 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 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 Sustainability reports.

II. Application

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

Scope

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

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

The inclusion of sustainability within our investment decision-making supports these objectives by considering material risks and opportunities across our asset classes to drive policyholder security, balance sheet stability and value-driven investment, as well as ensuring that we meet our sustainability 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 evolve alongside these changing expectations. It will be regularly reviewed and presented at least annually for approval by the Board.

Roles & Responsibilities

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

The 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 with the economic environment now meaning that many schemes are in surplus, 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

Rothesay 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.[1]
2. We will manage our investment portfolio with the aim to align with a maximum temperature rise of 1.5°C in line with the Paris Agreement.
3. To track our progress towards this net zero target we have also committed to a:
    a. 20% reduction in the Carbon Intensity of our publicly traded corporate debt (PTCD) portfolio by 2025 over the five years beginning with the baseline set in 2020.
    b. 20% reduction in the Carbon Intensity of our total portfolio by 2025 over the five years beginning with the baseline set in 2020.
    c. 50% reduction in the Carbon Intensity of our PTCD portfolio by 2030, vs the same baseline as above.
    d. 50% reduction in the Carbon Intensity of our total portfolio by 2030, vs the same baseline as above.
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 currently misaligned with our commitments, rather than pursue immediate divestment. This includes engaging with at least 20 of our most carbon intensive issuers within our corporate portfolio. This helps 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. These include the Principles for Responsible Investment (PRI) and the UN convened Net-Zero Asset Owner Alliance (NZAOA). 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.

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

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. To aid the investigation of these issues, Rothesay utilise third-party data sources including sustainability data from MSCI and carbon emission data provided by Bloomberg and CDP.

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. The Sustainability team is also responsible for monitoring and updating this policy.

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

As part of our sustainability analysis we have developed climate screening to identify entities with material climate risk. For investments with exposure to physical risk, such as property, we adjust our investment guidelines, underwriting criteria and internal ratings to manage this risk, based on forward looking stresses for how climate hazards might evolve. For transition risk, our climate score creates a consistent way to assess an issuer’s climate risk, allow comparability between issuers and to trigger additional governance at the point of trade.

These entities are subject to more detailed analysis, at point of purchase and through the investment duration, including annual investment performance and sector deep dives, and ongoing review of scores. 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. Greatest caution is applied to entities with high coal exposure, and there is limited appetite for single asset fossil fuel investment.

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

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

Scenario Analysis

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

We utilise several scenarios as the foundation for our climate scenario analysis, drawing on selected data provided by Planetrics[2] , a granular bottom-up climate scenario model. Each of the scenarios represents a different possible climate future over a 30-year horizon, encompassing the global energy system, economy, and physical environment. This allows us to identify opportunities and vulnerabilities under different climate outcomes across our portfolio, across a range of different scenarios, given the inherent uncertainty around how the decarbonisation of the global economy will ultimately play out.

Further information can be found in our latest Climate report.

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

IV. Position Statements

As outlined, Rothesay's responsible investment and stewardship strategy takes a case-by-case risk-based analysis approach. This involves considering the individual characteristics of our investments, including climate factors, to support appropriate decision making. Driven by this risk-based assessment, there are several areas, relating to thermal coal and 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.

Scope

Our position statements cover all activity relating to our investment portfolio.[3]

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 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, 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.

[3] Please refer to the Implementation Approach sub-section of this policy for further details.

- Where an entity has indirect exposure to thermal coal, for example a purely metallurgical coal extraction company which has thermal coal as a by-product, additional review will be undertaken to understand whether the materiality of their exposure 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 & 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 the production of arctic oil & gas or tar sand extraction, recognising these activities have an acute impact on the environment.

Controversial Weapons

Background and Rationale for Position

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

Position Statement

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

a) Cluster weapons

b) Mines and Booby Traps

c) Biological weapons

d) Chemical weapons

Rothesay will not knowingly finance any company where:

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

Implementation Approach

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

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

If we identify investments which breach our exclusion policies, we will endeavour to exit the investment within 90 days, where this is possible. Certain circumstances may prevent this occurring, for example for highly illiquid positions, 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.

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 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.

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

In the context of being a debt-only investor, our engagement and escalation approach is restricted by the more limited mechanisms and influence we can utilise with relevant issuers. It is often challenging to determine whether our activities alone result in a direct outcome or to accurately assess whether the lack of responsiveness to our engagement reflects an entity's own views on sustainability issues or its prioritisation of more material stakeholders.

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.

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

VI. 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.

VII. Reporting

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

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

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

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.

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