Our sustainability report

Our sustainability position

"At Scottish Friendly, we recognise the importance of operating sustainably and want to play our part in helping to address climate change and reduce the impact it could have on our present and future customers."

Stephen McGee, CEO

As a mutual organisation, Scottish Friendly must have a sustainable membership by serving both our customers and future members. A big part of sustainability is how we respond to and try to shape our impact on climate change. We know climate change will have a long-term impact. Not just on the environment, but also the financial markets and the communities we live in. The signing of the Paris Agreement in 2015 was a significant milestone in defining the ambition of limiting temperature rises to well below 2 ^{o}C, and preferably 1.5 ^{o}C, above pre-industrial levels. However, to meet this goal, everyone needs to play their part.

Climate change will shape the business environment for many years and decades to come and Scottish Friendly recognises our responsibility to fulfil this. This document outlines the actions Scottish Friendly is taking in response to the climate crisis. It's the start of our commitment to doing the right thing, and what we believe is in the best interest of our customers.

Purpose of our climate policy

We've been helping generations to invest for their financial future for 160 years and, as a mutual, we have a deep-rooted sense of duty.

We consider the long-term future when it comes to our customers' investments, business, and customers. That's why it's important for us to develop our own climate change action plan. We have a moral duty to act in our customers' best interests, as well as a legal one, and we expect climate change to become increasingly important to our customers and their families in the years to come.

Our action on climate change

We recognise that climate change is an issue that has become increasingly important in shaping how businesses operate. Our strategy considers the areas that we believe are affected – our direct operations, investments, and approach to risk management – and our commitment to being open with our stakeholders.

In our response to climate change, we're committed to:

Reducing our carbon footprint

Scottish Friendly is committed to becoming a net-zero carbon emissions business by 2050. This includes the footprint arising from our investment portfolio. As part of that journey, we'll consider climate change risks and opportunities in our own operations and ways that we can reduce them, with an ambition to meet net zero here by 2030.

ESG Reporting

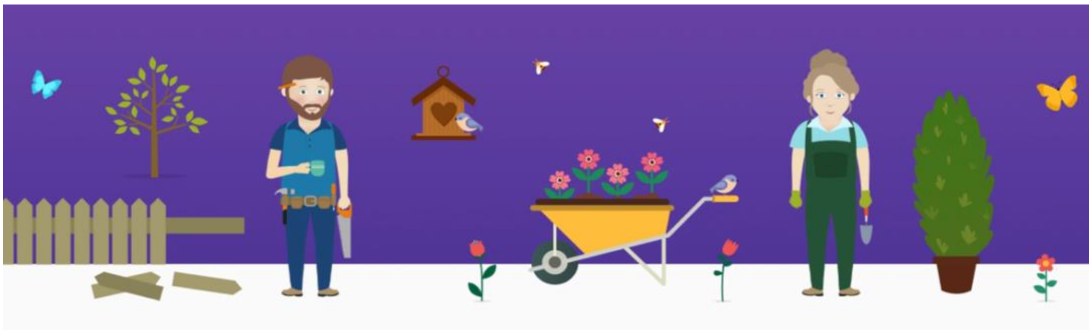
We'll require our investment managers to develop Environment Social and Governance (ESG) reporting, helping to ensure that the impact of our customers' investments is understood.

Managing risk

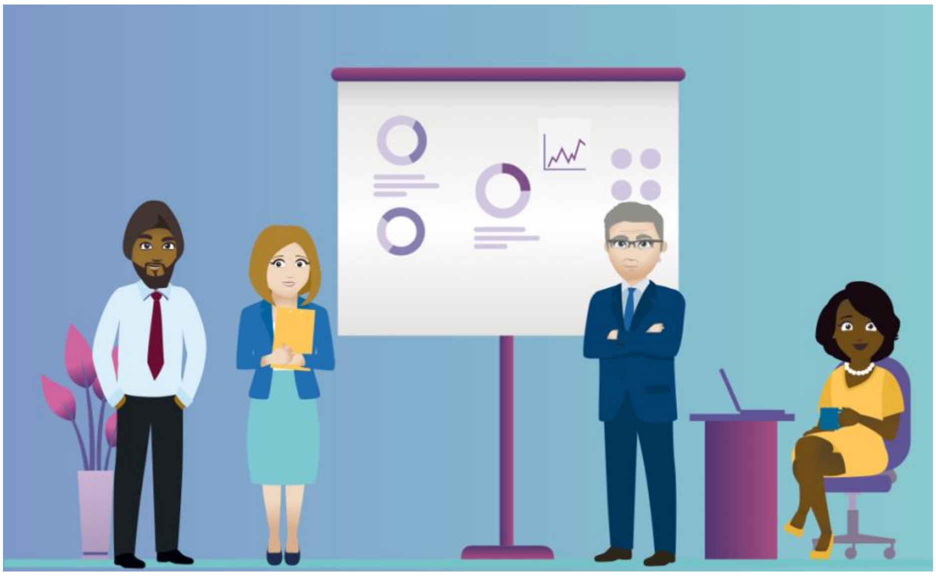
We'll embed climate change risk within our risk management framework, strategic and business planning.

Keeping everyone up to date

We'll provide an update on our progress against this policy on our website annually. Our progress will also be overseen by our Board and communicated with our delegates.



Our climate change pledges



We'll consider climate change risks and opportunities in our own operations.

We believe it's important to look for ways to make our own business more efficient, so that we can reduce our environmental footprint. Our target is to achieve net zero for our own direct operation scope 1 and 2 emissions by 2030.

To achieve this, we're looking for ways to measure and reduce our own direct impact on the environment, by lowering our contribution to greenhouse gas and other harmful emissions. That's why we've engaged a specialist partner to help us to identify the pathway to reducing our scope 1 and 2 emissions and to help us monitor this.

Emissions are a substance that is produced and sent into the air that is harmful to the environment. Scope 1 emissions are from the activities of our organisation or under our control, including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks. Scope 2 are indirect emissions from electricity purchased and used by our organisation. Emissions are created during the production of the energy and eventually used by us.

As part of our ongoing commitment to fighting climate change, we're creating a plan that will set environmental targets across our offices and operations in relation to energy efficiency and carbon emissions.

Some of these will include:

- Procuring green energy and reducing carbon emissions in our current building.
- Getting data for measuring and reporting energy usage.
- Setting targets for reducing waste.
- Improving how we separate waste to increase our recycling.

We'll require our investment managers to develop and implement their own ESG reporting

As part of our climate change commitments, we will:

- Look after our customers assets by monitoring the overall ESG rating of investments, and work with investment managers if they are not meeting our expectation.
- Require key investment managers to develop ESG reporting, put it into practice, and disclose it to us. Where their policy is not in line with our own, we'll engage with them to understand the gaps, and see how they can bring it more in line. If appropriate, we may decide to review the relationship altogether.
- Expect our investment managers to exercise their voting rights on all eligible investments, and make sure their voting takes into consideration long-term shareholder value, transparency (e.g., appropriate accounting disclosures, clear communication), appropriate renumeration, appropriate levels of Board independence and high standards of corporate governance, and that it supports appropriate action on social and environmental issues.
- Expect our investment managers to disclose their voting policy and voting records on climate change matters.
- Require our investment managers to be UN Principles of Responsible Investment ("UN PRI") and UK Stewardship Code signatories or have plans in place to achieve this. Any new mandates awarded to any fund manager will require that these are already in place.
- Require investment managers to demonstrate the process they'd use to change investments if the climate change associated risk can no longer be justified, and engagement activity has been exhausted.

We'll embed climate change risk within our risk management framework and business planning.

As a mutual with 160 years' experience, we're a long-term investor that recognises the complex risks that climate change presents. We believe it's important to make saving and investing, and the insurance sector more sustainable. We also recognise the possible impact that this could have on financial returns for our customers and members.

The Prudential Regulatory Authority (PRA) has identified climate change as a financial risk and one that's as relevant today as it will be in the years and decades to come. Scottish Friendly has incorporated climate change risk within our risk management framework.

The risks arising from climate change include:

- Physical risks, from weather-related incidents, such as heatwaves, droughts, and rising sea levels; climate-related events that could result in the reducing the value of our customers investment assets.

- Transition risks in moving to a low-carbon economy, which may include disruption to how our business is modelled, policy changes or reputational impact, which could affect the overall economic environment. This could also create market, regulatory and insurance risks which could weaken the value of our customers investment assets.

Given the long-term nature of climate change risks, we're aware that we need a strategic approach to manage these risks in the short, medium, and long term.

As part of our commitment, we will:

- Develop our understanding of how climate change risks could impact our business model, customers, and members.
- Consider the materiality of financial risks from climate change within our existing risk management framework.

We'll report on our progress annually

We'll communicate updates on responsible investment activities and our approach to climate risk generally to our Board and at least annually to our Board, and delegate members. Customer and member communication can be through our delegates.

We're committed to being clear and open on our progress and what we are doing to manage climate change risks, and as part of this commitment we will:

- Include updates via our annual report and website on our progress against this document.
- Develop metrics and targets in support of our achieving our commitments so we can measure and assess performance from 2022.

Governance

Ultimately, it is the responsibility of the Board to consider climate change risks and opportunities at Scottish Friendly. Various members of the Executive team are responsible for delivering various aspects of the plan to tackle climate risk.

Glossary

- **Emission -** an amount of a substance that is produced and sent into the air that is harmful to the environment.

- **Net zero -** net zero is the balance between the carbon emitted into the atmosphere and the carbon removed from it.

- **Scope 1 –** all direct emissions from the activities of our organisation or under our control, including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks.

- **Scope 2 -** indirect emissions from electricity purchased and used by our organisation. Emissions are created during the production of the energy and eventually used by us.

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