NFU MUTUAL ANNUAL STEWARDSHIP REPORT 2023

NFU Mutual
INSURANCE | PENSIONS | INVESTMENTS

INTRODUCTION FROM PAUL GLOVER, CHIEF INVESTMENT MANAGER

I am very pleased to be able to introduce the latest NFU Mutual annual Stewardship Report. This report covers our stewardship and responsible investing activities over the period from July 2022 to June 2023.

As a mutual organisation we pride ourselves on being active and responsible members of our communities, and building long-term relationships is at the very heart of everything we do across our business. Environmental, Social, and Governance (ESG) has become increasingly integrated across NFU Mutual, and strong stewardship of our investment assets and a long-term responsible investment policy continue to be vitally important elements of our overall approach.

We have always considered responsible investing to be an integral part of our investment activities, with a long track record of encouraging good corporate governance and engaging with the companies we invest in.

Our core investment beliefs include taking an integrated approach to ESG matters, recognising that various ESG related factors need to be considered alongside other investment criteria, and they can have a significant impact on investment outcomes alongside their wider impact on society in areas such as climate change.

Responsible investment and good stewardship have become ever more important, with companies and society having to deal with the ongoing impacts from the war in Ukraine and the Covid pandemic, such as significantly higher levels of inflation and interest rates than we have seen in decades.

Where we see opportunities for improvement in the companies we invest in, our preferred approach is to engage with them to effect change where possible rather than to exclude them. Directly engaging with management teams remains an important part of this process alongside using our voting rights as appropriate, but we also increasingly look to collaborate with other investors to maximise our influence on important issues.

We are proud signatories of the Principles for Responsible Investment (PRI) supported by the United Nations, and a member of the Investor Forum, as we believe both enhance our stewardship capabilities as well as helping to raise standards across the investment industry. We are also very pleased to be signatories of the UK Stewardship Code, with its admirable aim of setting high stewardship standards for those investing on behalf of savers and pensioners.

This report provides an overview of how we demonstrate our commitment to these important areas of good stewardship and responsible investing and I hope you enjoy reading it.

Paul Glover
Chief Investment Manager

THE PRINCIPLES OF THE UK STEWARDSHIP CODE

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for customers, leading to sustainable benefits for the economy, the environment, and society.

The UK Stewardship Code was introduced by the Financial Reporting Council to set high stewardship standards for those investing money on behalf of UK savers and pensioners. The code comprises of 12 principles.

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PRINCIPLE 1: OUR PURPOSE, STRATEGY AND CULTURE

NFU Mutual was founded in 1910 by seven Warwickshire farmers and since then has grown to become the UK's leading rural insurer and part of the fabric of rural life.

We remain true to our heritage; our core purpose is to protect and enhance the lives of our customers and rural communities.

As one of the UK's largest mutual insurers, we're owned by and run for our members and are therefore able to reinvest in our business for the benefit of them.

Because we do not have shareholders to provide profit for, instead of making decisions based on short-term needs, we make them with our customers' best interests in mind.

Our values are deeply ingrained in all parts of our organisation, including our investment team, who invest around £20billion of funds under management for the long-term benefit of our customers.

We encourage decision-making that is in the long-term interests of all stakeholders, and not necessarily a short-cut to a quick but ultimately smaller investment return.

Our stewardship activity reinforces that long-term strategy by influencing the companies and markets we invest in.

Business model

We operate our General Insurance business primarily through a network of Tied Agents, located mainly in rural areas throughout the United Kingdom.

Our Agency model provides specialist advice for customers with complex insurance and personal finance needs, alongside a range of products for those whose requirements are less complex and more standard.

We have over 280 local Agent offices across the UK and approximately 950,000 customers. We really get to know our customers, are part of their communities, and genuinely care for them.

Our Financial Advisers offer advice on life assurance, investment and pension products, supported by Non-Advised Sales Consultants who provide non-advised services.

Many of our customers rely on our financial products not only to protect themselves in adverse circumstances but also to enhance their investments to help safeguard their future financial prosperity.

Our investment strategy is built on decisions designed to benefit our customers by giving the potential for positive long-term returns.

NFU Mutual invests on behalf of its general insurance members and its financial services customers, who hold pensions, protection or investment products with us. We also invest on behalf of the company's own pension scheme.

NFU Mutual General – The general business fund is how we invest the money of our general insurance members for their long-term benefit so we can continue to pay claims while growing in a sustainable way. At the end of 2022, this fund had a value of £7.5bn.

NFU Mutual Life – Our life funds under management represents how we invest the money from our retail investment and pension customers, including With-Profits customers and our OEIC funds. At the end of 2022, these funds had a value of £10.7bn.

NFU Mutual's Retirement Benefit Scheme – Our investment team also invests on behalf of the company's pension scheme. At the end of 2022, the fund backing the defined benefit scheme had a value of £1bn.

Our purpose and our strategy

In Autumn 2022, we updated our strategy for 2023 and beyond to reflect key areas that have become increasingly important, such as Customer Experience, Data, and ESG.

At the core of our strategy is our purpose, which is to protect and enhance the lives of our customers and rural communities.

Our three long-term objectives provide the pillars for that aim and the five outer rings are the focus areas that support those objectives. This strategy covers both our General Insurance and Financial Services businesses (Life and Investments).

Protecting rural lives and livelihoods

Our key strategic aim is to protect and enhance the lives of our customers and rural communities. We look after our members, moving quickly to support customers with a range of personal financial needs, from insurance to investments.

In 2022, we donated £8.1m to the farming unions of the UK and invested £400,000 in schemes designed to tackle rural crime.

Our charitable donations totalled £3.25m, including £1m of donations made by the NFU Mutual Charitable Trust, and £1.92m given to 384 deserving local charities supported through our UK-wide Agency Giving Fund.

We also donated £300,000 to the Farm Safety Foundation, an independent charity founded and funded by NFU Mutual which preserves and protects the physical and mental wellbeing of farmers.

There is more information on NFU Mutual's commitment to being a responsible business in our 2022 Responsible Business Report.

Be here for current and future generations

Sitting underneath our core aim are three pillars of our Group strategy; to deliver sustainable profitable growth for our members, to be a great company to do business with, and to be a great place to work.

We deliver sustainable profitable growth by making sure we are here for current and future generations, and our stewardship approach is a key part of that activity.

Delving deeper into that segment of our new strategy are the five prongs that ensure we are here for future generations. We will:

1. Leverage our investment expertise by implementing strategies that deliver long-term investment returns, while investing our customers' money carefully and responsibly
2. Optimise the management of our With-Profits fund, setting bonus rates for a fair distribution of capital to current and future generations of With-Profits customers
3. Maintain strong governance and control standards, embedding our ESG, stewardship and sustainability framework through all aspects of our business
4. Safeguard and optimise our financial strength, ensuring we are not knocked off-course by short-term pressures
5. Protect the environment and operate responsibly, recognising that climate change is a shared global responsibility we will drive transition to a low carbon economy

Protecting the Environment

We fully understand there is an urgent need for action on climate change and are committed to being a Net Zero business by 2050.

In 2022, 100% of waste across office sites owned and occupied by NFU Mutual employees was either reused, recycled or disposed of responsibly, our company car emissions reduced 53% compared to our 2019 base year and our greenhouse gas emissions reduced 28% compared to our 2019 base year.

As part of these commitments, the Investment team has agreed to a 50% reduction in emissions in our equity, corporate bond and property portfolios by 2030 and a 100% emissions reduction by 2050.

We are signatories of the United Nations Principles for Responsible Investment, contributing to a more sustainable global financial system, and we have onboarded a market leading ESG data provider to help us monitor progress as we look to reduce carbon emissions in our investment portfolio against our Net Zero roadmap.

Managing carbon is a key principle across our property investment portfolios, where our estimated carbon emissions have reduced by 30% since 2019.

During the reporting period we joined ClimateWise, a global network of leading insurance industry organisations, aligning expertise to collectively and innovatively tackle climate change.

Our Culture

Our culture is epitomised by our long-term strategic goal to be a 'Great Place to Work'. A key measure of this is the annual Gallup engagement survey completed by our employees. In 2023 our engagement results were "world class", maintaining a position in the 99th percentile in the Gallup Company Level Database of global organisations. Alongside this we were also named a Gallup Exceptional Workplace, receiving the award for an eighth consecutive year.

We are committed to providing a friendly, fair and inclusive working environment where our people can thrive and achieve their full potential. From supporting our employees' health and wellbeing, to encouraging them to own and develop their career, we're passionate about being a great place to work.

In 2022, we launched our Diversity and Inclusion strategy and have delivered key actions, including signing up to the Race at Work Charter, joining the 10,000 Black Interns initiative, and implementing mandatory unconscious bias training for all employees.

Signing the Women in Finance Charter in 2018, we have increased our focus on gender equality and now have 40% female representation in our senior management population.

During 2023 we celebrated National Careers Week and Learning at Work Week during which our learning and organisational development department have shared resources with employees to offer support in areas such as personal development, gaining professional qualifications and coaching and mentoring.

Our Investment Beliefs

Our Group strategy guides our investment philosophy, which is at its core, a 'genuinely long-term fundamentals-led investment approach employed to build and maintain well diversified portfolios'.

- We aim to provide portfolios that are resilient to shorter-term market shocks and fluctuations, allowing us to maintain stable holdings that are well placed to deliver against their long-term objectives.
- We invest through market cycles. Portfolios contain investments in high-quality companies with strong market positions and holdings in stable, highly rated government debt.
- When investing in companies, our preference is to allow high quality businesses that make good returns to compound their value over time and patiently accrue that value to us.

All our actively managed investments are subject to an integrated investigation and selection process and ongoing review, considering a wide range of both financial and non-financial factors which may impact long-term performance and stability. We also actively engage as asset owners to influence behaviours of the companies and providers we invest with.

Our long-term approach gives our investment ideas time to work and limits unnecessary portfolio turnover and the associated costs. We also position our business as a sensible and collaborative provider of patient capital where our engagement focuses on an investment's ability to generate sustainable long-term returns.

As long-term investors, we believe that it is 'time in the market' not 'timing the market' that matters. We believe that customers holding a portfolio over the long term and allowing returns to compound, rather than attempting to time their investments, will be the biggest factor in the overall return achieved. We align our approach to this view, providing comfort to invest under a wide range of market conditions and to maintain holdings through periods of volatility for as long as they remain suitable to achieve long term goals. This approach meets our customer needs because our customers typically stay with us for a long time and invest with us for the long term.

To help enable this approach, the NFU Mutual investment team has developed an investment process that is rigorously applied to internal and externally managed assets that we feel are best placed to achieve optimal outcomes. Our investment beliefs are supported by academic literature and, through dedicated application, we are confident we can achieve good long-term investment outcomes for our customers.

Diversification is key to delivering stable long-term returns – Diversifying across a range of asset classes, geographies, market sectors and individual securities increases the chances of delivering long-term growth and providing some protection against economic shocks. Diversification provides the best opportunity to deliver more stable long-term returns compared to a more concentrated portfolio.

Risk and Return are related but not always proportional – Taking risk is required to obtain reasonable returns, however at times the expected return on an asset or group of assets does not adequately compensate for the level of risk taken. Portfolios should be constructed taking into account both the potential for return and the level of risk. We don't believe that returns should be chased by taking excessive risk.

We believe in active management – Where expertise and opportunity exists, we believe active security selection can provide a source of increased returns net of any additional management costs.

An integrated ESG approach – Environmental, Social and Governance (ESG) factors need to be taken into account and can have a significant impact on investment outcomes. They are integrated parts of investment decision-making and are embedded within the process used to manage our investments. Our preferred approach in most cases is to positively influence the behaviour of companies we invest in rather than excluding them from our investment portfolios. Where we believe ESG factors impact the potential for long-term performance, the investment process may lead to under or over-weighting of securities within actively managed portfolios where such flexibility exists. Formal exclusions or ESG related targets set for reasons other than performance expectations represent a moral belief rather than an investment decision.

Asset allocation is the most significant driver of return – The mix of asset classes and the weights allocated to these asset classes is the main driver of returns for multi-asset investments in the medium to long-term.

Shorter-term market inefficiencies can be exploited – Dynamic Asset Allocation over shorter time horizons can add value by allowing us to take advantage of market events, inefficiencies or behaviours not captured in the medium-term strategic view.

Optimal returns can be delivered through a mix of our in-house investment managers and by using carefully selected external managers – Dedicated in-house teams manage specific asset classes where they have considerable expertise at a competitive cost level. Where internal capability is limited, we seek to utilise best-in-class external managers if we believe their expertise can provide improved portfolio returns net of any additional cost.

Investment decisions must be subject to robust governance – We have strong internal governance structures in place to ensure we manage our assets in a prudent manner, that there is a sound rationale for investment decisions and that these decisions are in the best interest of our customers.

Assessing Our Effectiveness

Annual General Meeting

As a mutual, which is owned by and run for its members, our members vote on our effectiveness each year. Every member receives a copy of the annual accounts and the reports of the Directors and the Auditors. NFU Mutual's 2022 Report and Accounts can be found here. Members then vote to receive them at the Annual General Meeting as well as voting to re-elect the directors and fixing their remuneration.

The Key Performance Indicators used to assess effectiveness that are detailed in the annual report for members are:

- Group Financial Performance
- Group Funds Under Management
- Persistency
- Employee Engagement Score
- Gross Written Premium Income
- New Business
- Underwriting result
- Combined Operating Ratio
- Annual Premium Equivalent
- Life Funds Under Management

In June 2023, NFU Mutual's Annual General Meeting was held at the British Motor Museum in Gaydon, Warwickshire.

At that meeting 99.58% of NFU Mutual members voted to receive the annual report and accounts for 2022, 98.41% voted in favour of re-electing Group Chief Executive Nick Turner as a Director, and 96.63% approved the directors' remuneration report. Full voting results are available here.

Board evaluation

The Board is structured with four Executive Directors and eight Non-Executive Directors. The Board is committed to continually improving its effectiveness and the Group's overall performance. To facilitate this, the Board has implemented a three-year review cycle consisting of an external evaluation one year and individual appraisals with Directors conducted by the Chairman in the other two years. Following an external evaluation in 2020 an internal review was undertaken in 2022. Some minor recommendations for improvement were made and these will be followed up during 2023. The annual appraisal of the Chairman was co-ordinated by the Senior Independent Director and all Directors provided input. The appraisal concluded that Jim McLaren continues to provide effective leadership of the Group as Chairman.

Assessing effectiveness of Investments

Board Investment Committee

Our Board Investment Committee is a Board sub-committee that meets quarterly and is responsible for assessing the effectiveness of our investment strategy. The committee reviews the performance of the Group's investment portfolios throughout the year, considers the Group's ESG policies in relation to investments and reviews the fund mandates and strategic asset allocation for all funds. The committee's effectiveness is assessed annually and during the reporting period it was agreed the committee was operating effectively. There is more information on the Board Investment Committee in Principle 2.

Value for Money assessment

An annual Value for Money report is produced for the board who oversee the NFU Mutual OEIC funds. This provides assurance that investment management services offered provide long-term value for money, including in areas such as ESG and stewardship.

FSPGF

The Financial Services Propositions Governance Forum (FSPGF) meets monthly and provides oversight of the development and management of propositions within the financial services business and the management of retail funds held by NFU Mutual customers. The FSPGF provides review and assessment of the appropriateness, performance, and outcomes of investment funds and propositions. (More information about FSPGF in Principle 2).

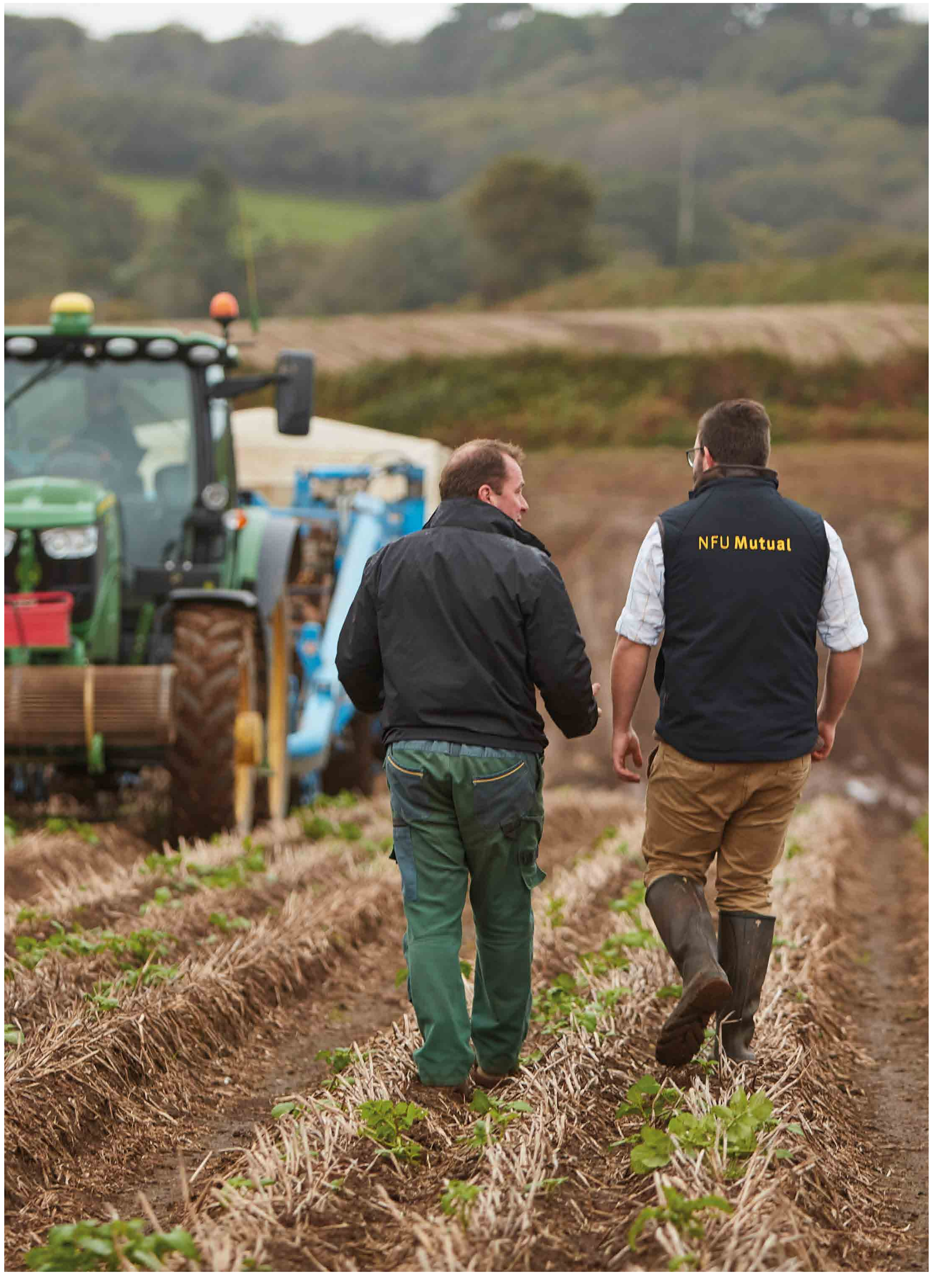
Control environment

NFU Mutual runs a Control Environment, a continuous set of processes and frameworks that ensures we meet our customer obligations and achieve our business objectives by:

- Acting with integrity and with due skill, care and diligence.
- Acting in a prudent manner and ensuring we maintain adequate financial resources at all times.
- Having effective risk strategies and risk management systems.
- Organising and controlling our business responsibly and effectively, including having effective resolution strategies defined.
- Observing standards of market conduct.
- Ensuring fair outcomes for customers (Treating Customers Fairly) through the provision of suitable advice, meeting information needs, protecting client assets and managing conflicts of interest.
- Maintaining an open and cooperative relationship with our regulators.

The Board and its committees continuously monitor adherence to these processes and frameworks by discussing and challenging reports from business units, monitoring management information, and considering the findings of assurance reviews and audit reports.

In addition, the Group Head of Internal Audit provides an annual report on the governance, risk and control framework of NFU Mutual witnessed during its audit activity. The ORSA (Own Risk and Solvency Assessment) is a continuous process that requires insurers to consider a forward-looking view of their solvency position that gives assurance that NFU Mutual has sufficient capital to meet its strategic objectives. The Board continually monitors the company's risk management framework and internal control system. It has reviewed the effectiveness of those systems and is satisfied that the Group's risk management framework and system of internal controls are robust and effective.



PRINCIPLE 2: GOVERNANCE AND STEWARDSHIP AT NFU MUTUAL

As a business that has been operating for more than a century, NFU Mutual has strong risk and governance structures running through it and we understand the important role these structures play in safeguarding the future for our customers, our staff and the wider community. These structures have fostered a culture that ensures employees are engaged, empowered and incentivised to maintain high standards.

ESG Steering Group

The ESG Steering Group is the governance structure for our Group-wide ESG strategy and principles. Chaired by Group Chief Executive Nick Turner, its members also include the Finance Director, the Risk Director, the HR Director, the Director of Marketing and Digital, and the Head of Communications and Reputation. The role of this group is to set out the Group's ESG strategy, and review, endorse and propose ambition levels to Board for approval.

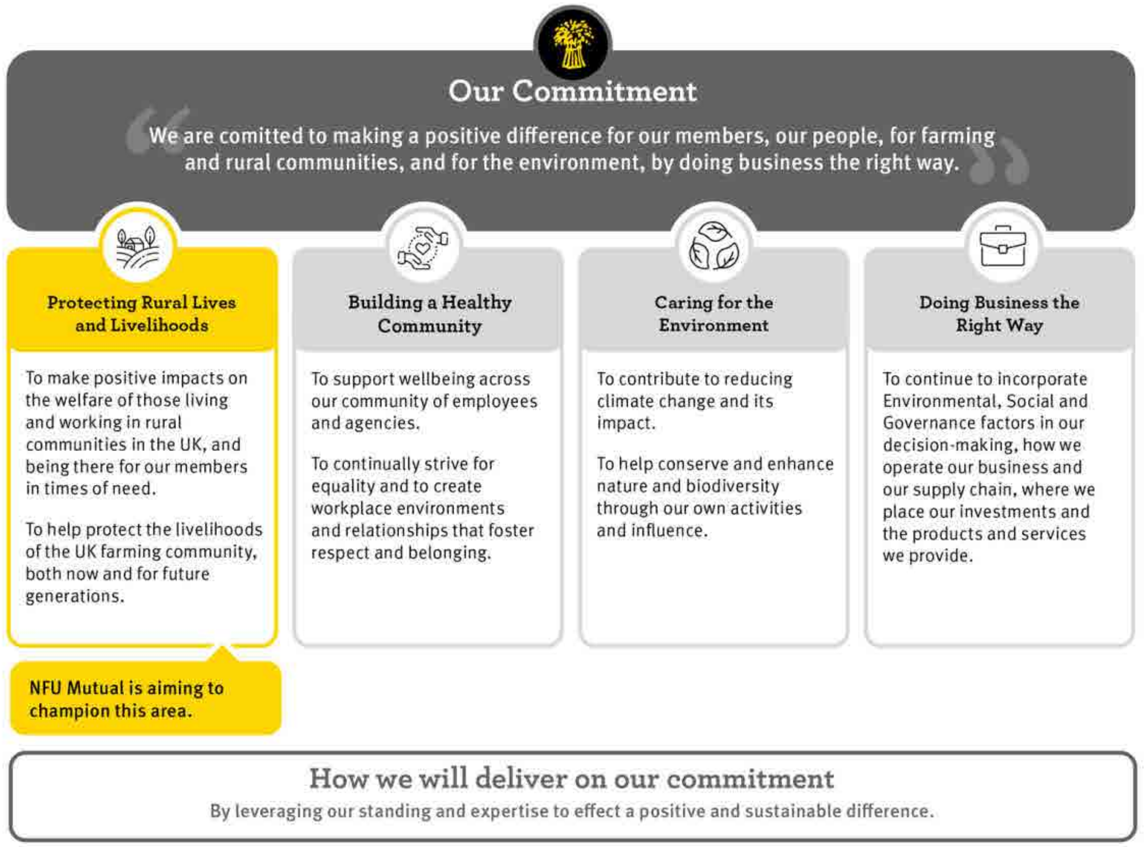
The Steering Group provides oversight of how we are delivering our business-wide ESG priorities. It tracks performance against the external environment, monitors key internal developments and assesses key risks and opportunities.

It meets on at least a quarterly basis and more regularly if necessary. Though membership is set, additional directors and workstream leads are invited to present or attend depending on the situation. At each quarterly meeting, overall progress and at least one key priority area is reviewed and discussed with subject matter experts.

In March 2023, the Steering Group approved phase two of NFU Mutual's ESG Strategy, which focused on target setting, determining a suite of three-to-five year goals, key performance indicators (KPIs), targets and action plans to support NFU Mutual's overarching ambitions.

Underpinning our ESG strategy are four ambitions for the business to work towards over the longer term. These support our overall commitment to make a positive difference for our members, our people, for farming and rural communities, and for the environment, by doing business the right way.

Responsible Investments is one of the focus areas of the Group-wide ESG Strategy under the pillar 'Doing Business the Right Way' and it was a regular agenda item for the ESG Steering Group during the reporting period.



The investment priorities our ESG Steering Group focus on include;

- Measuring carbon emissions across our investments and property investments to ensure progress towards our aims of reducing emissions by 50% in our equity and corporate bond portfolio by 2030 and reducing them by 100% by 2050.
- Contributing to a more sustainable global financial system
- Governing our investment standards in line with the principles of the UK Stewardship Code
- Ensuring 100% of our electricity supply of our property investments is renewable where NFU Mutual is responsible for the supply
- Ensuring 100% of new and amended property investments include green lease clauses

In December 2022, the Group's ESG Steering Group assessed the investment team's use of a market-leading ESG data provider (MSCI) which provides an independent layer of scrutiny.

In January 2023, the ESG Steering Group considered an update from Investments on their ESG process, current tolerances, and whether there were any areas they should increase shareholder engagement.

In March 2023, the ESG Steering Group considered and agreed to an internal framework for assessing investments in different sectors.

In April 2023, the ESG Steering Group considered NFU Mutual's approach to impact investing, agreed to define the key impacts the business wanted to make in line with its Group-wide ESG Strategy, and mandated proposals to achieve these impacts across the investment portfolio.

Investment Governance

At NFU Mutual, our investment team considers environmental, social and governance responsibility throughout all decisions, and these decisions are taken in established governance structures.

Board Investment Committee (BIC)

Our Board Investment Committee is a Board sub-committee that meets quarterly and receives its authority from and reports to Board. Its membership must include the Group Chief Executive, Finance Director, Risk Director and at least two Non-Executive Directors. It is responsible for oversight and challenge of investment related activity and its duties involve investment strategy and objectives, asset allocation, investment implementation, investment compliance, and risk strategies, as well as investment related ESG and responsible investing criteria.

The Committee discuss a range of regular and ad hoc topics, including investment risk scenario analysis for strategic asset allocation decisions, and more immediate topics such as the impact of rising interest rates and inflation, or the banking crisis in early 2023.

The Committee continually reviews the performance of the Group's investment portfolios throughout the year. It considers the Group's ESG policies in relation to investments and ensures that all external fund managers are aligned with the Group's position on ESG, and in particular climate risk. It reviews the fund mandates and strategic asset allocation for all Group funds.

During the reporting period the Committee oversaw the process for the Group to sign up to the Investor Forum (see Principle 10).

To maintain focus on stewardship and ESG the board chair requested that ESG became a regular agenda item. During the reporting period the committee has regularly discussed ESG and received papers on the carbon footprint of the investment portfolio and how this can be managed and monitored as the group looks to meet its decarbonisation targets.

In December 2022 the committee received a continuing professional development (CPD) session on stewardship and engagement to help inform and educate the members on the group's activities in this area. The session was later taken to a broader audience at the Group's Executive Committee.

BIC completes an annual effectiveness review as outlined by the Terms of Reference. A discussion meeting was held between the committee Chair, the Group Chief Executive, the Risk Director, the Finance Director and the Head of Actuarial Function. The meeting evaluated the quality of pre-reads and discussion, how the committee was meeting board expectations and the appropriateness and coverage of the terms of reference throughout the year. Overall, it was agreed that BIC is operating effectively whilst reflecting on what further improvements could be made to the information that goes to Board, and the information that BIC receive.

Executive Investment Committee (EIC)

Our Executive Investment Committee reviews investment performance across institutional and retail funds on a quarterly basis, providing oversight and challenge to the decisions taken by the Investment team and reporting to the Board Investment Committee (BIC). The Executive Investment Committee is chaired by the Finance Director, with a membership of experts and internal customers providing a breadth and depth of experience to give robust oversight and challenge to investment performance, fund strategy and positioning and risk appetite. Committee members are the Chief Investment Manager, Group Head of Property, the Head of Investment Office, the Head of Group Propositions and the Head of Financial Control. Regular attendees include subject matter experts from Investment and Risk functions.

The Investment Executive of the Finance Director, Chief Investment Manager, Group Head of Property and the Head of Investment Office meet up more frequently, on a monthly basis, to discuss investment related matters. With detailed information from the Middle Office and other sources on issues arising, this executive group is able to identify any investment governance issues and escalate these to the BIC where appropriate.

ESG Forum (Investments)

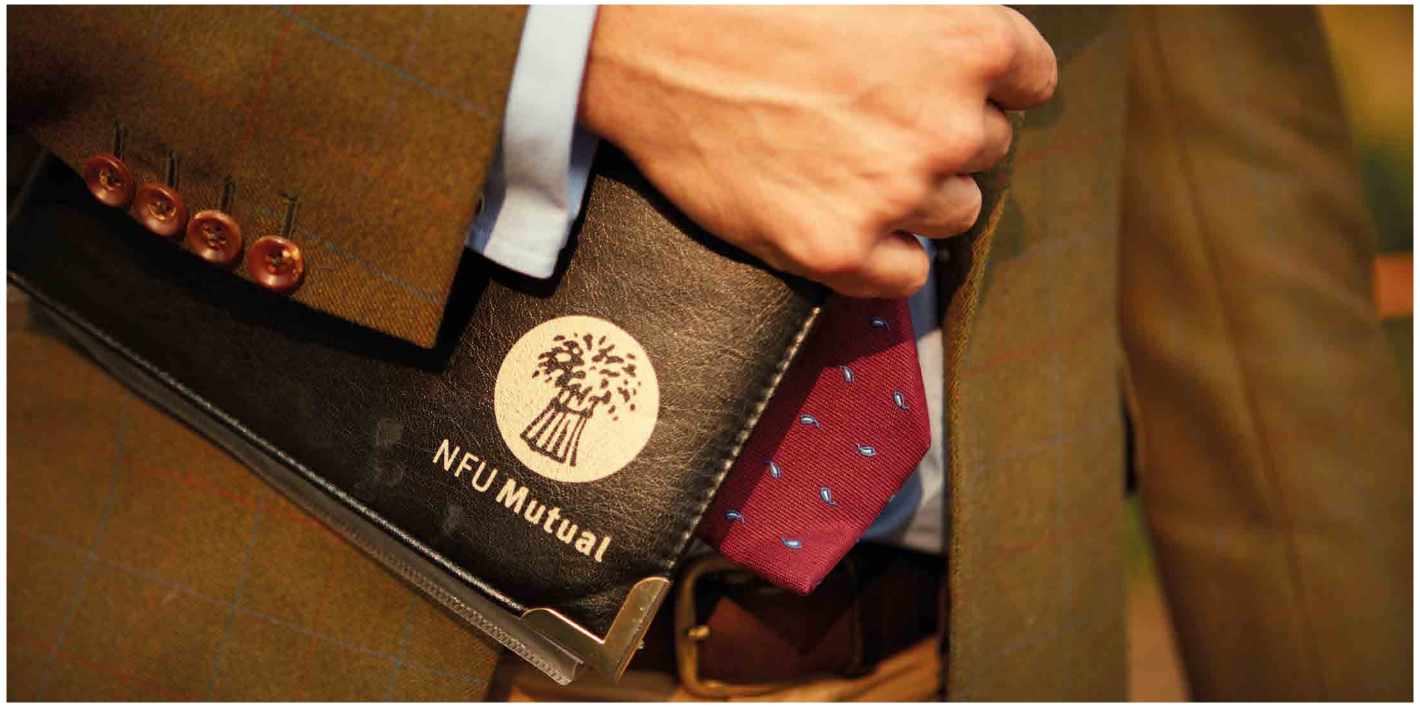
The ESG Forum within the Investment team develops and embeds ESG practices into our decisions which leads to improved stewardship. It is chaired by the Group's Chief Investment Manager and receives delegated authority from the Investment Executive to review ESG policies and activities and will feed relevant information and any recommendations for approval to Board Investment Committee. The forum is tasked with enhancing our ESG reporting and helps prepare regular updates on ESG and stewardship to the Board Investment Committee, the main Board and Retirement Benefit Scheme Trustees. The ESG Forum also contribute to enhancing our messages to customers.

Group Property ESG Meetings

As well as attending the Investment ESG Forum, Group Property hold their own quarterly ESG meeting comprising senior department leaders who monitor objectives and outcomes of ESG delivery across real estate teams. Furthermore, the property investment team meet every six weeks to assess progress of individual ESG business planning and delivery. Approval of all investment and asset management transactions is undertaken on a dual performance and ESG approach, which forms part of the Property Investment approval process, under limits of authority, designed to inform sustainable investment decision making and integration of ESG analysis alongside traditional financial stewardship. Key risk and control indicators that account for ESG and climate, financial, and operational risks have been developed and are reported quarterly.

Investment Management Team (internally managed funds)

Our Investment Management team is responsible for internally managed funds. The department is divided by Middle Office and Front Office functions headed by the Group's



Chief Investment Manager who has been with NFU Mutual since 1986 and has over 37 years investment management experience.

The Front Office consists of an Equity desk and a Fixed Interest desk, and the two Investment Managers leading these desks have over forty years' experience between them. Building this considerable experience at NFU Mutual has allowed them not only to acquire extensive market knowledge and expertise but also a deep understanding of the culture of our company to place customers at the heart of decision making. This is reflected in the way they lead their respective teams to utilise stewardship to provide good outcomes for our beneficiaries.

All our Fund managers are CFA certified and have considerable experience within their areas of expertise. Fund Managers are specialised within certain markets or styles, allowing them to engage extensively and constructively with investee companies and approach their analysis from diversified viewpoints to share ideas across the desk.

We have recently recruited several Trainee Fund Managers on a multi-year programme which sees them study for their Investment Management Certificate (IMC) and Chartered Financial Analyst certificate (CFA) as they support the department with fresh perspectives and ideas whilst gaining an understanding of investment markets from their colleagues.

Our Middle Office provide oversight of investment operations, with responsibility for investment compliance and performance reporting activities. They monitor our investment funds to ensure they remain within the constraints of their mandates and regulations, independently assessing whether the funds are delivering for our customers and members when providing updates for senior management and investment committees. The team has a diverse skillset and background, enabling them to carry out their responsibilities effectively. This includes team members with actuarial and accountancy qualifications carrying out performance calculations and providing investment data for use in company accounts, respectively.

Increasing our ESG and Stewardship resource In 2023, the Investment team made two appointments to further support the ongoing ESG and stewardship ambitions of both the department and the wider group.

An ESG and Stewardship Manager was appointed to lead the firm's investment ESG strategy, and manage a team that will conduct detailed sustainable investment research and screening on companies to inform the investment decision making process. They are responsible for building effective relationships with portfolio managers and advising them on climate change impacts and risks, developing engagement activities, working directly with investee companies to effect change, and aligning stewardship activities with the goals of the business.

An ESG Fund Management Assistant was appointed to review, develop and produce suitable management information focused on ESG metrics, collate data from proxy advisors to help form voting decisions and utilise the group's shareholder rights, engage with company representatives to understand their responsible business strategies and decarbonisation targets, and collaborate with fund managers to analyse portfolio companies and sectors in line with the ESG strategy.

The ESG and Stewardship Manager has a CFA certificate in ESG investing, and the ESG Fund Management Assistant has an Investment Management Certificate and is working towards a CFA certificate in ESG investing.

Investment Office

The Investment Office is responsible for setting strategic asset allocations across our mixed asset portfolios, this includes reviewing our investable universe and recommending changes including sourcing any new asset classes.

When recommending changes and sourcing new asset classes the ESG characteristics of the asset class are an important consideration.

The Investment Office is also responsible for selecting and monitoring our externally sourced fund managers. ESG is an important consideration in both the selection and ongoing monitoring of our external managers. As well as forming our own view of managers' ESG credentials we also work with a third-party partner Mercer who separately assess each manager using their own internal rating system. The Investment Office team includes both actuaries and investment professionals.

External Partners

Alongside our own internal ESG analysis, we consider ESG information provided to us by our third-party data providers, whether that is through reports focusing on individual companies or thematic research across wider industries and markets. Our Fund Managers take all of this information into account when considering their investment decisions. The Commercial Property Fund has enhanced ESG due diligence for investment transactions by subscribing to the MSCI value at risk benchmark. This has enhanced data and information for all investments in respect of physical risks, including flood, fire and storm and transitional risks for moving to a low carbon economy and mitigating climate risks. The subscription benchmarks the financial risk from climate impact across NFU Mutual's property portfolio against the market and to date has reported favourably that NFU Mutual's property portfolio affords a lesser risk profile. Data from this subscription will inform future transactional and asset management decision making in order to further reduce the risk profile.

With-Profits Committee

This Committee is set up by the NFU Mutual Board to advise them on the management of the With-Profits business and look after the rights, interests and expectations of different With-Profits policyholders.

NFU Mutual has around 62,500 With-Profits policies in force. At the end of each financial year, directors of the With-Profits Committee make a formal statement to their With-Profits policyholders confirming that they have acted in a fair and reasonable manner in accordance with their firm's Principles and Practices of Financial Management.

In addition, the With-Profits Actuary must state if, in their opinion, the interests of the With-Profits policyholders have been taken into account in a reasonable and proportionate manner. This leads to the publication of a report to With-Profits policyholders on an annual basis. This committee also interacts with other teams in the business on future developments that could improve our With-Profits product. This includes gaining insight from our advisers and customers to reflect changing views of customers, both existing and new.

FSPGF

The Financial Services Propositions Governance Forum (FSPGF) reports on and makes recommendations on the development and management of propositions within the Financial Services business including the management of retail funds held by NFU Mutual customers. This includes propositions currently or previously made available to customers of NFU Mutual, and those manufactured by third parties.

Fund performance management includes performance in relation to fund goals, objectives and benchmarks, the impact of charges, the future view of the fund manager and the investment market context. The remit of the FSPGF is to assess and review:

- The appropriateness of those propositions/investment funds for the target market/customers
- The potential or actual performance of the proposition/investment funds is aligned to customer needs and expectations.
- The potential or actual outcomes of the proposition/investment funds are aligned to customer needs and expectations and deliver fair customer outcomes
- The potential or actual customer outcomes arising from a recommendation to change, withdraw or close a proposition's product, its associated services, its features or benefits

To do this from the perspective of:

- the target market/customers, taking into account, the 'voice of the customer'
- NFU Mutual as a manufacturer
- NFU Mutual as a distributor

FSPGF will take account of relevant law and regulatory rules and guidance, including the FCA's Product Intervention and Product Governance sourcebook (PROD) and the FCA's rules and guidance on long standing, vulnerable and ageing customers to evidence fair outcomes.

Incentives

At NFU Mutual, we link reward and remuneration to the right behaviours as part of a culture that maintains ethical behaviour at all times. Executive directors have performance-related metrics included in their remuneration package that serve to drive behaviours that promote the best interests of the business. Incentive schemes incorporate a wide range of financial and non-financial measures which are aligned to the company's long-term business strategy, including being a great company to do business with. A number of senior managers, including those in our investment team, have ESG metrics entwined into their objectives.

ESG considerations have been introduced to all of our actively managed fund mandates and play a central role in the investment processes conducted by our portfolio managers. Fund Manager incentives are dependent on evidencing continued progress of ESG considerations. The value and importance of good corporate and social governance in safeguarding prosperous futures is paramount to how we manage our customers' assets. This culture feeds directly into our investment process, where all actively managed fund mandates assess the standards of corporate and social responsibility before investing. We review these standards during regular engagements with the companies we invest in. We do not invest in companies that do not meet our criteria.

During 2022 the Remuneration Committee has overseen progress in developing ESG metrics for senior manager remuneration.

PRINCIPLE 3: CONFLICTS OF INTEREST

At NFU Mutual, every member of staff has an obligation to do what is best for our customers. In the working environment situations may arise where an individual has competing loyalties that could entice them to pursue a personal benefit for themselves, their friends or their family at the expense of NFU Mutual or its customers.

Therefore, managers and staff must:

- **Identify** events that could lead to conflicts of interest
- **Assess** the likelihood and impact of these conflicts
- **Manage** these conflicts
- **Escalate** any issues outside their authority level

Board Directors

In order for the Board to operate effectively, it is important that a majority of the Board is independent. This allows the Non-Executive Directors to fulfil their responsibilities around providing constructive challenge and helps ensure integrity. Directors are required to notify the Chairman as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest. At the end of 2022 the Board was satisfied that any potential conflicts have been effectively managed throughout the year. The register of potential conflicts of interest is regularly reviewed by the Board to ensure it remains up to date. Non-Executive Directors are required to seek approval from the Board before taking on any additional commitments to allow the Board to consider whether such commitment would impact on their ability to fulfil their responsibilities to the Group.

Managing conflicts of interest within the Investment function

Each department logs conflicts of interest. NFU Mutual's Investment team has its own Conflict of Interest Policy. Details of those relating to stewardship are outlined below. Conflicts of interest are also a standing item at each of the investment committees referred to in Principle 2.

Inducements

NFU Mutual does not accept any inducements in the form of services or financial payments from companies or institutions with which it trades. Any payments to such companies and institutions are only made for trades or relevant services. Details of commissions and dealing volumes are recorded and disclosed. Details of any potential inducement are recorded in the 'Gifts & Hospitality Register'.

Personal Account Dealing

Personal account dealing relates to trades in financial securities such as shares or bonds made by investment staff. The risk for potential market manipulation is clear, as a result the business has outlined strict personal account dealing policies. No member of the investment team is allowed to make any transaction that would result in insider dealing or market abuse. No member of the team is allowed to make any transaction that would involve them in a conflict of interest with NFU Mutual customers or an NFU Mutual fund. The interests of NFU Mutual customers and NFU Mutual's funds is always placed above the personal interests of the investment team. Before any personal dealing other than those detailed in the next paragraph, formal written authorisation must be obtained from an "Authorising Official" and from a designated member of the Compliance Department. For any trades in companies listed on either the S&P1200 or the FTSE100 then only notification to an appropriate authorising official is required. Records on personal account dealing, including notifications, are retained for a minimum period of five years. If an employee is stopped from entering into a transaction from his or her personal account, they must not ask anybody else to enter into such a transaction or communicate any information or opinion to another person that could result in such a transaction.

Remuneration

The NFU Mutual Group does not receive any remuneration for investment services outside the fees detailed in agreements with customers. Likewise, no member of the investment team receives fees from any clients outside of the group, nor do we benefit from any transaction that would be distinct from those we serve for the group. Remuneration of NFU Mutual Fund Managers includes an incentive scheme based on the performance of relevant funds they manage, but pay remains consistent with the interests of customers generally by not linking to any specific trade or client. Our fund manager incentive schemes include long term performance while total pay is also determined by the performance of the wider Group and personal objectives. Incentive schemes are signed off by the Remuneration Committee and figures are calculated and checked by individuals who are not beneficiaries. Overall, the fund management incentive schemes have been designed in a robust manner to avert the risk of conflicts.

Insider Information

As a financial institution with more than £19bn of funds under management, and as part of its wider security industry obligations, the NFU Mutual Group will on occasion, receive forms of communication that may be considered confidential and known as 'insider

information'. Throughout the reporting period we were made privy to inside information on four occasions. It is a criminal offence to trade in a company share or pass information on about it when privy to insider information. Our Fund Managers are obliged to assess whether they are in possession of inside information. When information is deemed to be 'inside', the information cannot be shared or acted upon. This situation continues until the information ceases to be relevant or becomes public knowledge. Anyone in the investment team who is made an insider, needs to be notified by the relevant Fund Manager as soon as they are made an insider and also notified when the insider period ends. This final or end notification should include the start and end date of the insider period. This information is verified on a quarterly basis as a part of quarterly checks from the separate Middle Office compliance team. Fund Managers should make all reasonable efforts to contain insider information to those who are intended to receive it. When inside information is communicated verbally, Fund Managers ensure this is done in a secure environment separate from the rest of the department. We look to minimise conflicts of interest when voting. As standard, Fund Managers will not be included in voting discussions in case they hold relationships which could impair their judgement. If it is decided that a Fund Manager's expertise of a company is required to reach a voting decision, then we may include them in the discussions on occasion.

Order Allocation Policy

Potential conflicts exist among Fund Managers seeking to gain allocations to trades that have performed well on a given day. Here we manage the conflict by ensuring all desired allocations are attached to a trade pre-order. Post trade, orders are filled according to pre-trade

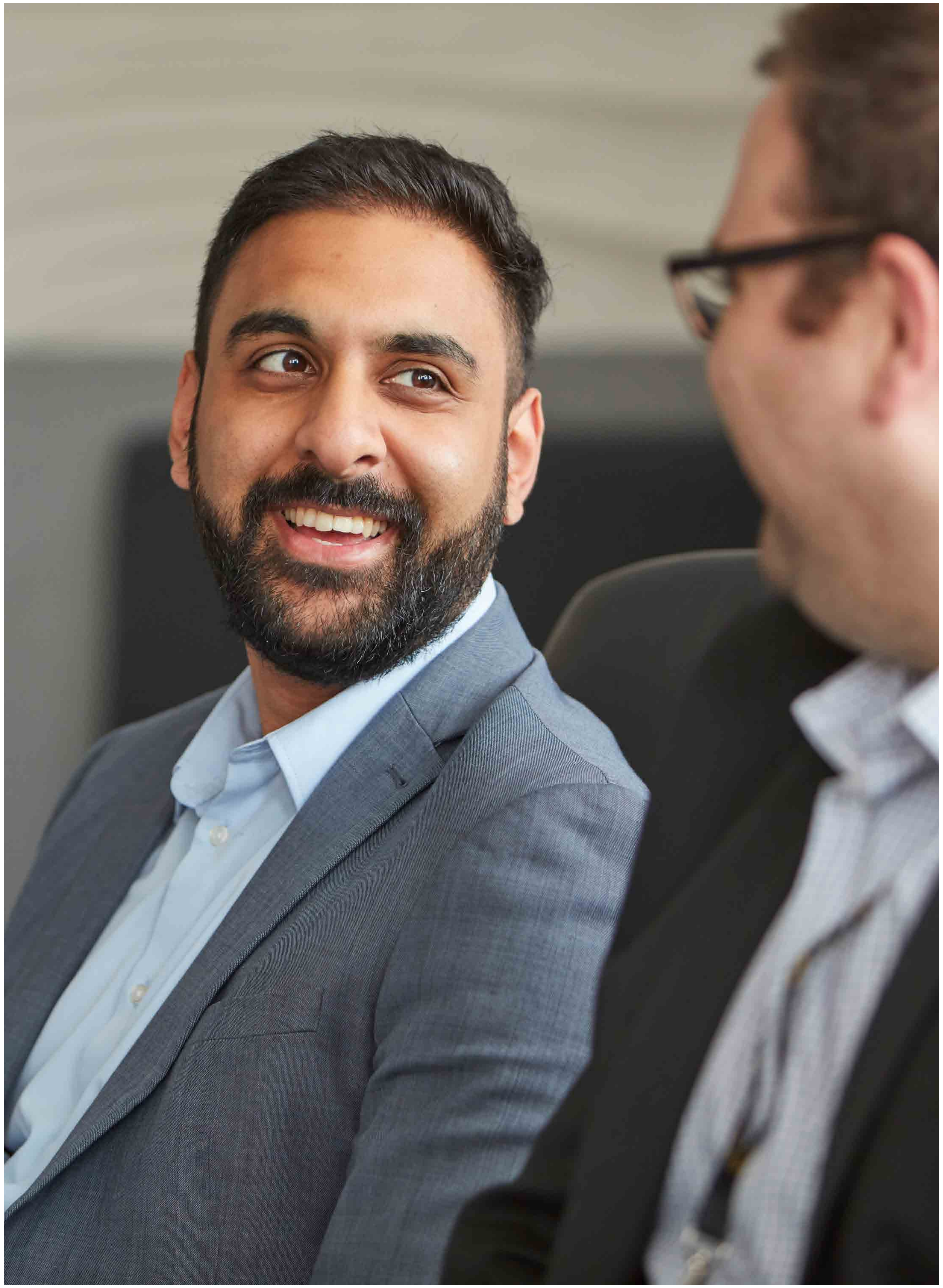
allocations. If a trade is only partially-filled then orders are allocated to accounts governed by a strict order allocation policy. Details of all orders made by NFU Mutual's investment team are recorded in the investment manager's dealing log. There will be occasions where more than one NFU Mutual fund will trade in the same stock at the same time, and there will be occasions when all of the desired stock is not available.

At NFU Mutual, our customers' best interests are at the heart of everything we do, so when this happens, customer funds are prioritised over internal funds. Customer funds are always given a proportionate allocation of stock and often a higher share. Where proportional allocation would produce amounts too small to be economical, customers will be favoured when determining where stock is allocated. Specifically, when dealing in equities all customer orders are filled before internal accounts receive any allocation.

Example: How we addressed a potential conflict of interest in procurement processes

Anyone who is involved with a tender process when procuring a product or service is asked to disclose any potential conflicts of interest they may have. Employees are provided with a non-exhaustive list of potential conflicts provided to them including:

- Having a financial interest (e.g. holding shares or options) in a potential tenderer or any entity involved in any tendering consortium
- Having a financial or any other personal interest in the outcome of the evaluation of any tender evaluation process
- Being employed by or providing services to any potential tenderer within the last three years
- Being a member of a potential tenderer's management/executive board
- Receiving any kind of monetary payment or non-monetary gift or incentive (including hospitality) from any tenderer or its representatives
- Canvassing, or negotiating with, any person with a view to entering into any of the arrangements outlined above
- Having a close member of your family or personal friends who falls into any of the categories outlined above
- Having any other close relationship with any potential tenderer.



PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

Responding to Market-Wide and Systemic Risks

Risk is an essential part of NFU Mutual's operations and successful risk-taking is required to achieve the Group's business objectives. To ensure that all risks are managed effectively, NFU Mutual is committed to:

- Driving a common risk culture across the business
- Ensuring the implementation of effective systems and processes of risk management
- Supporting senior management to continually develop their control and co-ordination of risk taking across the business
- Ongoing retention, development and attraction of the appropriate resource in the risk function
- Ensuring the Group continues to meet its regulatory requirements

All Group-wide risk management activities are supported and co-ordinated by the Risk Management Function led by the Risk Director. This team has close relationships with the wider business, including governance committees and departmental managers. The central risk team is also responsible for managing Group risk governance and oversight.

In order for the Group to optimise its performance, risk and return are considered together. NFU Mutual believes this is best done by managers being accountable for managing risk within their teams. The risk strategy is aligned to the business strategy and allows us to balance risk and return in the delivery of our three key strategic objectives.

A robust risk management strategy and framework, overseen by experienced risk teams and risk governance committees, underpins a strong risk culture with a focus on benefits for customers and policyholders.

The Group's approach to risk management ensures there is effective, independent checking or 'oversight' of key decisions by operating a 'Three Lines of Defence' model, with clearly defined responsibilities, which is outlined to members in our Report & Accounts.

Our risk management framework underpins our assessment of the level of capital we need to hold to cover the risks to which we are exposed. Legislation currently requires firms to hold enough capital to survive 1-in-200-year risk events occurring over a 12-month period. This is called the Solvency Capital Requirement.

We also provide regular training to our staff on spotting scams and other financial crimes, as well as preventing market abuse.

ClimateWise

During the reporting period NFU Mutual become a member of ClimateWise in a bid to better respond to the risks and opportunities associated with climate change.

ClimateWise is a global insurance industry collaboration with the University of Cambridge Institute for Sustainability Leadership. It brings the insurance industry together with world class academic expertise and sustainability leaders to collectively tackle climate change.

As insurers, we have unique insight into the risks and impacts of climate change. As part of our new partnership, we will report annually to ClimateWise on our climate change approach and activities. This will give us independent expert insight on the progress we're making, and also enable ClimateWise to form an industry-wide view to help influence public policy.

By networking with peers who are also members of the ClimateWise community, we look forward to sharing our knowledge and learning from other experts, as we help to shape solutions to combat the climate change risks posed to our customers and their communities.

Taskforce on Climate-Related Financial Disclosures (TCFD)

The first mandatory disclosures for NFU Mutual will appear in our 2023 Annual Report, and in preparation for this, we have reviewed our 2022 disclosures against TCFD recommendations and Financial Conduct Authority (FCA) and Financial Reporting Council (FRC) feedback to understand how we need to develop our disclosures to meet mandatory reporting expectations.

Our climate reporting can be found in full in our 2022 Report and Accounts here.

Risks from climate change are captured within NFU Mutual's risk management framework and are classed as either active or emerging risks. Active risks are those facing the business in the current environment and emerging risks are those risks that may occur in the future where the nature or scale of impact is not yet clear. Risks from climate change may arise in the short, medium or long term. In the context of climate change, NFU Mutual defines short-term as within the next three years, medium-term as three to ten years and long term as over ten years. Climate change is also recognised as a principal risk, based on its potential to significantly impact our business operations and our customers.

Longer term risks are also considered as part of NFU Mutual's climate scenario analysis. Scenario analysis is a key tool for understanding the resilience of a firm to a range of future outcomes and is particularly relevant to climate change because the impacts will be wide ranging and extend beyond normal business planning timescales. The future trajectory of climate change is also uncertain, with dependencies on actions taken in the short term to define medium and long-term outcomes.

NFU Mutual continues to expand its scenario analysis to consider a broader set of risks from climate change. In 2021 NFU Mutual used the Bank of England's Climate Biennial Exploratory Scenario (CBES) to consider potential impacts to NFU Mutual over the next 30 years under three different transition pathways – early policy action, late policy action and no additional policy action.

In 2022 we've built on this to consider scenarios that assess specific risks including exposure to liabilities arising from climate related legal action, impacts of climate change on the Group's retirement benefit scheme, impact of sea level rises on our property insurance business and the impact of climate change on our Strategic Asset Allocation for investments.

Our 2022 climate report includes the investment risks we have identified, how we are managing them, and the metrics used.

Investment Risks	Climate change impacts the value of assets within NFU Mutual's equity and bond portfolios. Factors that could affect values include: • The resilience of underlying entities to physical impacts from climate change • Ability of investee companies to transition successfully to a low carbon economy and the costs and risks associated with them doing so • Public and market perception Climate change impacts the value of property assets. Factors that affect value could include: • Resilience of physical assets to changing weather and climate • Energy efficiency performance • Compliance with climate related legislation Climate change impacts income from property portfolios due to factors including: • Adaptation costs necessary to transition assets to low carbon technology • Exposure to tenants that are negatively impacted by climate change • Ability of property to meet ESG expectations of current and potential tenants
How we are managing the risks	• Investment ESG policies are in place to ensure climate change impacts are embedded in investment processes • We actively engage with investee firms through our responsible stewardship activity • We have detailed ESG plans in place for each property within the portfolio to ensure resilience over the short, medium and long term • We actively engage with tenants and include green clauses in contracts • We are developing metrics to identify exposures and monitor key risks from climate change within our investment portfolios
Metrics	• Absolute emissions of investment portfolios • Emissions intensity • Investee companies aligned to science-based targets • Energy performance rating of properties within the property portfolio

Interest rate risks

After years of low interest rates, the sharp increase in interest rates in 2022 and 2023 created a new environment for fixed interest investing that required a response from fund managers.

Example: Contributing to well-functioning financial system during LDI scare

In Autumn 2022, the UK's mini-budget from Prime Minister Liz Truss and Chancellor Kwasi Kwarteng led to a spike in gilt yields that sent shockwaves through the Fixed Income market. NFU Mutual funds were not caught up in the subsequent problems that the Liability-Driven Investment (LDI) industry faced and didn't add to any of the pressures in the system at the time. Rather, we used the market moves to increase our weightings in conventional and index-linked gilts in late September and October. This helped provide a bid to assets and in a minor way will have served to support a stressed area of the market.

Example: Responding to market wide interest rate risks

Modelling by NFU Mutual's Financial Risk team has for many years shown that falling interest rates were one of the main risks to the solvency position of the Life fund. However, whilst the situation was closely monitored and the potential for negative interest rates was considered and reviewed, we continued to be comfortable holding some interest rate risk whilst rates were close to the zero bound. Rate rises throughout 2022 and 2023 have provided a good opportunity to neutralise most of this risk. As part of this NFU Mutual entered into a series of long-dated interest rate swaps in Q1 2023.

Strategic Asset Allocation

At NFU Mutual, we offer mixed funds that carry a percentage of company shares and are also invested in fixed income stocks and cash. For example, our 40-85% shares fund invests between 40 and 85% of the fund's assets into equities. Others will have different proportions invested in equities and customers choose these funds based on how much risk they want to take with their investments.

Each year, our Investment Office undertakes a strategic asset allocation process to deliver portfolios with the best returns over the long-term, when adjusted for risk. This also impacts our institutional funds which we invest on behalf of our General Insurance members. The cycle of refreshing this allocation begins in mid-October each year with final sign-off requested by the Board Investment Committee the following March.

During this process, we apply a range of stress testing and scenarios to the possible allocations of assets within our portfolios. We use this process to consider a mix of asset classes which maximises risk-adjusted returns and provides some protection against a broad range of scenarios.

Each year we try to identify any new or emerging scenarios that may need to be considered, to ensure we achieve an incremental benefit to the current portfolios.

The process begins with the Investment Office looking at the macro-economic backdrop that is anticipated over the next five years and the key risks which may materialise. Research is gathered internally from the risk team, investment management and emerging risk logs. We also consult external asset managers and banks, who assess risks they see as material for markets.

Once a range of scenarios is agreed within the team, we consider the impact of these scenarios using data from a range of external industry leading sources, as well as internal and external experts.

The Investment Office then outlines the scenarios and impacts to the Board Investment Committee in December. This allows the team's views to be further challenged and provides an opportunity for the Committee to request any additional scenarios that they believe warrant consideration and have not been included. These additional scenarios can be worked on prior to formal approval of the strategic asset allocation by the Board Investment Committee in March.

Once formally agreed, the investment management team align the portfolios accordingly.

Dynamic Asset Allocation

While Strategic Asset Allocation sets out our long-term asset allocation annually, alongside this we run Dynamic Asset Allocation which has a 12-month horizon and is reviewed at least quarterly.

This allows for moves to be made in a more flexible view. For example, Strategic Asset Allocation might signal that inflation is on the horizon, but it will be less sure of the extent it will feed through to markets or when it will. Dynamic Asset Allocation makes more frequent adjustments that allows the investment team to respond to risks as they become more immediate and take advantage of valuation opportunities.

Stock Specific Risks

Many of our holdings have substantial climate related risks. Our view is that the risks arising from climate change, or the transition response required to mitigate its effects, contribute to systemic risk present within the financial sector. Work has begun to measure and reduce carbon metrics at a portfolio level, making use of an industry leading data provider. We are using the data to improve our understanding of stock specific contributions to climate change and we are increasingly using our engagements with investee companies to push for better environmental disclosures and to challenge portfolio companies on their management of climate risk and opportunities.

Given the size of assets that we manage on behalf of our members, our impact on well-functioning markets is likely to be limited. Often our shareholding represents a relatively small portion of the total outstanding, in these circumstances we aim to allocate our members capital to investments with evidence of high levels of corporate governance. Where we have a material holding in a company, we use our influence to encourage good governance, better disclosure and social responsibility.

Example: Responding to 2023 banking crisis

March 2023 saw the unravelling of Silicon Valley Bank, followed by several other regional US banks and ultimately Swiss giant Credit Suisse, which had to be taken over by neighbouring UBS. NFU Mutual funds were not involved in the US regional banks that imploded and did not own any of the riskier Credit Suisse debt (known as AT1s), which defaulted as part of the rescue package. Our main exposure to Credit Suisse was on our cash side via certificates of deposit.

Whilst there was minimal to no concern in the market on the deposit front, we had taken steps to limit our exposure as part of our careful stewardship of assets. From August 2022 we stopped placing new monies with Credit Suisse after its credit rating was downgraded. We subsequently sold some of the deposits back to Credit Suisse in the month prior to the takeover. This ensured we would have little exposure in the event of any short-term liquidity issues with the bank and was re-deposited with higher rated counterparties.

Working with stakeholders

At an industry level NFU Mutual works closely with other stakeholders within financial services to promote continued improvement of financial markets.

As the leading rural insurer in the UK, we are an active member of the Association of British Insurers (ABI) which represents over 200 member companies.

NFU Mutual influences and contributes to industry initiatives through our chairing and attendance at key ABI committees and working groups. These are set up to:

- Provide a strategic view across insurance and long-term savings
- Direct and shape industry interaction and response to the regulator
- Help shape the industry approach to regulatory change.

At the time of writing, we had 31 members of staff attending 38 different ABI groups, forums and committees. These members respond to a variety of ABI requests relating to industry issues relating to insurance and long-term savings.

Through key working groups we are able to use our subject matter expertise to provide a unique perspective on Government or regulatory queries, and to help shape industry response to specific items of regulatory change.

As we chair or attend the ABI's key industry committees, we are able to contribute to the wider strategic view across the industry.

In Autumn 2022, the ABI's Director General visited our headquarters in Stratford-upon-Avon and spoke to the Board about the important role NFU Mutual plays in the financial markets it operates in. You can read a copy of the speech here.

The ABI also featured NFU Mutual's biodiversity initiatives as an example of responding to broader environmental risks in its guide to action on nature.

Our assessment is that engaging with an industry body is beneficial to both NFU Mutual and wider financial markets as we can provide a different view to others in the sector.

As well as being active members of the ABI's various insurance and long-term savings committees, NFU Mutual has sent feedback to the ABI on a variety of regulatory consultations.

We are active members of other specialist bodies. For example, we are members of the Investment Association, the Chartered Institute for Securities & Investment (CISI) and have worked with the Institute and Faculty of Actuaries on nature and biodiversity.

Regulators

There is a programme of regular meetings between Board members and the regulators of the UK financial system, the Financial Conduct Authority and the Prudential Risk Authority.

NFU Mutual also has a Group Compliance department which includes a Conduct Regulation Assurance team, a Compliance Consultancy Team, and a Financial Crime Team.

From July 2022 to June 2023 NFU Mutual engaged with our regulators on 17 data requests, covering topics such as financial resilience, the cost of living, oversight of Appointed Representatives and Defined Benefit pension transfers.

PRINCIPLE 5: REVIEWING AND ASSURANCE

Internal Assurance

At NFU Mutual, we have a number of committees designed to allow regular and proper governance of our investments, some of which are outlined in Principle 2 and the appendix.

In Principle 2 we outline how our Investment Function and activities are governed principally by our Board Investment Committee, who monitor our ESG and stewardship activities regularly. ESG is a regular item at each quarterly meeting. BIC monitor our ESG policy and activities ensuring that this is expanding to reflect growing emphasis on ESG and to ensure that our investment management team are continually improving their processes.

Our Investment ESG Forum has also contributed to continuous improvement of stewardship and ESG policies, by providing regular meeting points for subject matter experts across the business to discuss and debate policies related to this area and help ensure the responsible stewardship of assets.

Our Executive Investment Committee provides further oversight and assurance of our Investment function principally focusing on the performance of investment funds each quarter.

There is further governance of investment performance through the Financial Services Propositions Governance Forum (FSPGF) which meets each month and whose remit is outlined in Principle 2. This forum receives a quarterly update on investment performance and considers the appropriateness of the propositions and investment funds, ensuring that performance is aligned to customer needs and expectations.

During the reporting period FSPGF has effectively challenged and monitored the following areas:

- The appropriateness of fixed interest funds risk levels and how this can be managed in line with customer expectations.
- Ongoing performance of the UK Growth fund and seeking further clarification on how this is positioned aligning these to customer outcomes.
- The Value for Money of our fund offering and determining the actions that we could take to ensure customer outcomes are maintained or improved.
- Discussions on how we improve customer understanding of fund performance and ensure that customers can see the value we deliver to them through the management of our funds.

These committees and forums are considered suitable for internal assurance as they provide oversight of our Investment Function from a number of different perspectives and members include suitable subject matter experts from across the relevant areas of the business.

External Assurance

As well as internal assurance of our stewardship and ESG activity, further assurance is also sought from independent or external entities.

For the most part we feel that the internal assurance of our stewardship practices is sufficient to ensure it is delivering good outcomes for our customer. However, we do gain further assurance from entities closely related to the NFU Mutual such as our Retirement Benefit Scheme and the NFU Mutual OEIC Value for Money Process. Further external assurance is also provided by the ZEDRA Governance Advisory Arrangement.

Retirement Benefit Scheme – the trustees of NFU Mutual's pension scheme are provided with quarterly ESG updates which include voting and stewardship activities and an annual voting report.

NFU Mutual Unit Managers Ltd (MUMCO) – A Value for Money Assessment is approved by the board who oversee the NFU Mutual OEIC funds each year. The annual assessment is required to demonstrate whether and how value is being delivered for investors in each class of unit in each fund, and to take corrective action if it is not. The assessment must be explained annually in a report made available to the public. The latest report provides assurance that investment management services offered provide long-term value for money, including in areas such as ESG and stewardship.

Example: NFU Mutual OEIC Value for Money assessment

The funds operated under the NFU Mutual OEIC and Portfolio OEIC have their own governance structure and board.

Experts from a range of business areas including the investment office, investment management, unit pricing, customer services, corporate financial planning, customer propositions and regulatory compliance work together to review and challenge on whether long term value is being delivered for customers.

This results in a detailed assessment including proposed actions, and a customer statement. The assessment was reviewed and challenged by MUMCO Board before ultimately being approved. MUMCO Board is comprised of a mixture of executive and independent directors.

We consider ESG and sustainability as a key factor in the assessment of quality of service and our 2022 report to customers highlighted some of the improvements we have made in our approach to ESG over the reporting period, including putting in place our investment related climate ambitions and signing up to the United Nations supported Principles for Responsible Investment (PRI). Our 2023 report will highlight the further improvements we have made this year.

In 2024 we are looking to roll out this Value for Money assessment to our other retail funds to help ensure that NFU Mutual is continuing to provide long-term value for money to all its retail investors, including in areas such as ESG and stewardship.

Example: External Value for Money assessment

NFU Mutual customers whose personal pension plan policy is, or was, part of a group arrangement is treated by the financial authorities as a workplace pension scheme.

From April 2015, all providers of workplace pensions had to appoint an independent committee to represent the interests of members of workplace pension schemes.

NFU Mutual appointed Zedra Governance Limited to establish this committee, which is called a Governance Advisory Arrangement (GAA).

The main role of the GAA is to assess the ongoing value for money for pension scheme members, and raise with the provider any concerns it may have.

The full Terms of Reference and Annual Report of the GAA are available to view here.

If the provider does not address the concerns to the satisfaction of the GAA, the GAA can escalate those concerns to the Financial Conduct Authority. Each year the GAA openly publishes an Annual Report on its work.

This external Value for Money report is completed for our Workplace Personal Pension Plans. This covers our Group Stakeholder Pension Plan (GSP) and the Group Personal Pension Plan (GPP) as well as a separate annual report which covers our Investment Pathways product.

The in-depth review covers the below areas as well as an assessment of the value delivered to policyholders and our view of the adequacy and quality of the Firm's policies in relation to Environmental, Social and Governance (ESG) risks, non-financial considerations, and stewardship.

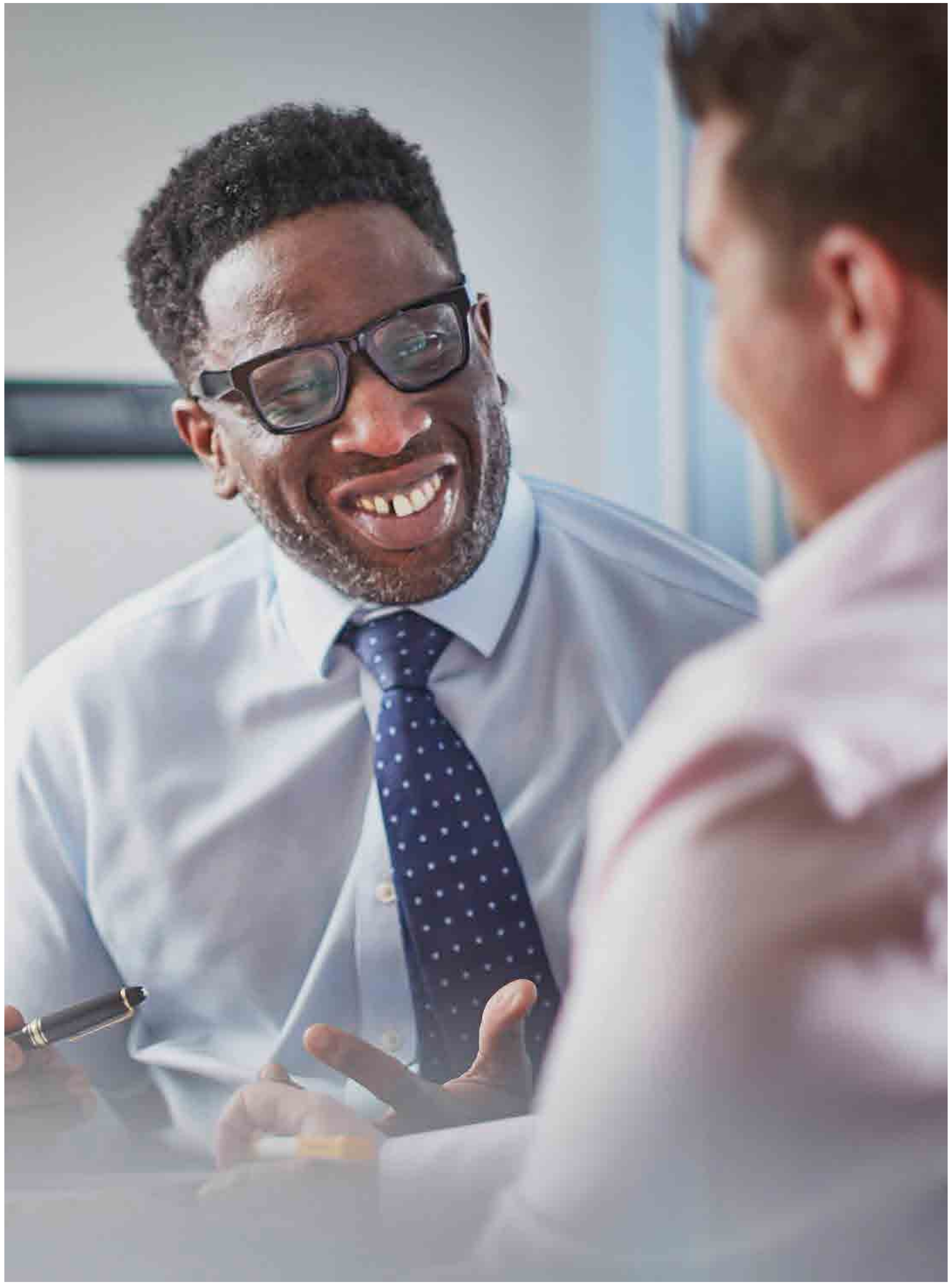
Ensuring our reporting is fair, balanced and understandable

Our Stewardship reporting includes, but is not limited to, our annual Report & Accounts, our annual ESG assessment for the Board Investment Committee, and other communications outlined in Principle 6.

All customer facing documents and external publications undergo a vigorous sign-off process from subject matter experts and are checked by marketing and technical compliance teams to ensure content is fair, balanced and understandable.

All internal reports are subjected to internal assurance and audit processes. In addition, before the publication and submission of this stewardship report we completed the following process:

- Content sought from relevant business experts
- Internal peer review completed
- Compliance check to ensure accuracy and appropriateness for customers
- Board Investment Committee approval ensuring it reflects overall investment strategy



PRINCIPLE 6: CLIENT NEEDS

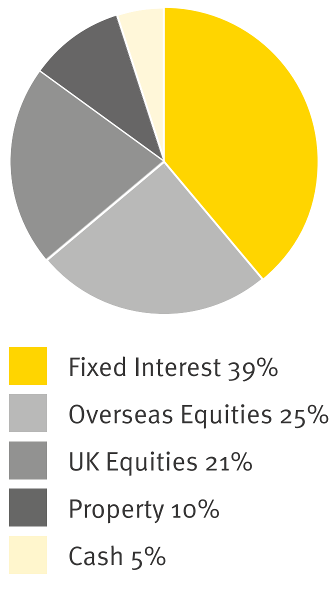
The long-term sustainable success of NFU Mutual is dependent on effective engagement with our key stakeholders.

By understanding our stakeholders, we can factor into discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns.

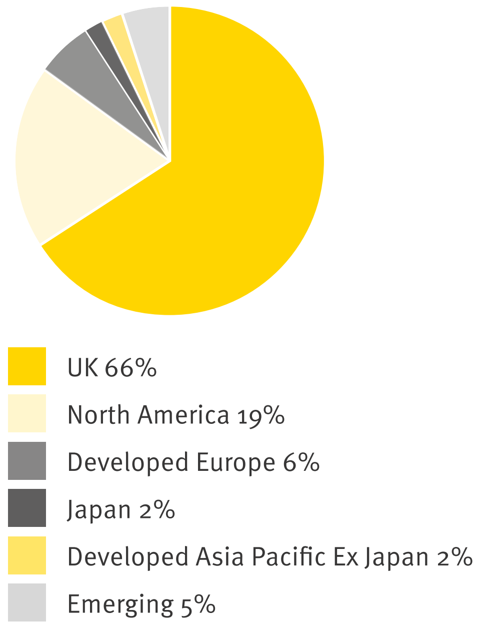
Assets Under Management

At 30th June 2023, we had assets under management of approximately £19.2bn. This is made up of various institutional and retail funds, across a range of different asset classes and geographies. For most of these funds the mixture of asset classes is determined by the Strategic Asset Allocation process outlined in detail in principle four.

Assets Under Management by Asset Class



Assets Under Management by Geography



Members and customers

As a mutual, we operate for our members, not to make profit for shareholders, and our customers are at the heart of everything we do, so we understand the importance of speaking and listening to them effectively.

We have around 950,000 customers in total and their average age is a reflection of the farming community we traditionally serve, which is typically older.

Our General Insurance members make up the majority of our customer base, but we have more than 125,000 customers with Financial Services products we offer such as pensions, protection or investments. The average age of these customers is 60.

We have nearly 50,000 investment customers and over 75,000 pension customers. These customers typically invest with us for a long time, and their investment horizons are all five years or more.

We invest money directly for customers who have one of our investment and pension products, including a significant number of With-Profits customers.

At the end of the reporting period, there were around 62,500 NFU Mutual With-Profits policies in force, although some customers may hold more than one policy.

There are several ways we communicate with our investment customers, both directly and indirectly. These interactions help to shape our internal conversations on how best to develop our products, so they continue to meet the needs of our customers and reflect their views.

Regional Advisory Boards

One of our primary routes of engagement with customers and members is through the Group's network of Regional Advisory Boards made up entirely of members.

The Regional Advisory Boards maintain close links with the Board and senior management through a series of meetings and with members via a network of Member Forums. The Regional Advisory Boards are briefed regularly on the Group's performance and key initiatives and provide valuable feedback to management and the Board.

There are currently seven Regional Advisory Boards, four in England, and one each in Scotland, Wales and Northern Ireland. Each Regional Advisory Board meets twice a year with the Chairs attending a further two meetings a year. Directors and members of senior management attend each of these meetings.

Mutual Voice

Another way we communicate directly with our customers is through our Mutual Voice panel, an online community of around 2,900 customers which enables us to gather quick feedback on business issues.

During the reporting period we conducted a number of surveys with these customers, including two of our biannual investor sentiment surveys.

Results are shared around the business, including with the investment team and help form our approach. As a mutual, we truly value the feedback of our members.

Example: Investor Sentiment survey

NFU Mutual conducts a biannual investor sentiment survey with its customers to better understand how their behaviours, attitudes and perspectives on their investments are shifting.

Results are shared with NFU Mutual's investment team and customer-facing teams as well as key external stakeholders, such as the farming media.

During the reporting period we conducted two of these surveys, which asked customers a number of detailed questions on saving and investing, including how much their investment decisions are influenced by the ESG impact of the investments they have.

The first survey, in Autumn 2022, was sent to 434 customers and in Spring 2023, we expanded it to 582 customers.

The results suggested that around one in three of our customers consider ESG impacts when making investment decisions, but this had fallen from Autumn 2022 to Spring 2023.

The results from our biannual Investor Sentiment survey inform both our business plans and our communications approach with our investment customers. The outcome of the research in Spring 2023 encouraged us to increase the frequency of contact with customers around our investment products and services, particularly during times of market volatility and changing interest rates.

Agency and Adviser Network

We are proud to have a face-to-face salesforce. Our network of financial advisers work alongside local agencies around the UK, enabling them to provide a face-to-face customer experience.

Our Agents are essential to meeting our purpose, delivering the required products and providing attentive, local, personal service to our members.

NFU Mutual engages with its Agents through the Agency Liaison Group and National Association of Group Secretaries which are both representative bodies of the Agents. Directors also regularly meet with individual Agents. In addition, a number of strategic change programmes which are expected to impact on Agents and their offices have set up focus groups to ensure that they are engaging with Agents and their views are taken into account, especially around the implementation of those change programmes.

Our Agents and our advisers are embedded in the communities they serve and get to know what their customers want. Our advisers can discuss our investment principles and stewardship practices in detail with customers.

To aid those conversations, the investment team hold regular Q&As with the adviser network, encouraging them to ask the questions they are hearing from their customers.

The subjects of these sessions are driven by the external environment and focus on market reviews and outlook, drivers of fund performance, ESG, stewardship and proposed product developments. The December 2022 Q&A included a presentation relating to ESG and Stewardship as well as an update on fixed income given its market movements at that time.

The investment team also produces a quarterly report called 'Investment Focus' for NFU Mutual's financial advisers which they use in conversation with customers. This provides updates on our approach to the current market condition and the performance of our funds. Advisers receive a separate monthly market update from the Chief Investment Manager in a newsletter, so that the information they are giving customers is up to date.

AGM

NFU Mutual's AGM is an important opportunity for the Group to communicate with members. Directors attended the AGM in June 2023 and members were invited to ask questions of the Board during the meeting. In addition, all questions submitted in advance of the meeting were responded to by the business or by directors directly as appropriate.

Our Annual General Meeting is an important forum for communication. Each year, we produce a detailed report of our accounts highlighting our investment practices, our policies, our approach to ESG, and how we are responsible investors.

For example, in our latest report on our 2022 accounts we informed customers the Board had reviewed the Group's ESG Strategy including its focus on responsible investment.

The annual report also told members that, as a responsible asset owner, NFU Mutual believes in strong stewardship processes and actively engages with the companies it invests in, including using voting rights to accelerate change and move towards more sustainable practices. Customers are able to ask questions about our investment strategy at the AGM or by writing to us.

Farming Unions

We became the official insurer of the National Farmers' Union more than 100 years ago and continue to provide funding for the UK's main farming unions, as they work with government to keep agriculture running and support rural businesses and families around the UK. In 2022, NFU Mutual donated £8.1m to the UK's four farming unions to carry out their vital role.

Both our chairman Jim McLaren and the board meet regularly with the unions to understand the issues facing the agricultural industry and rural communities. We also meet regularly with the NFU's Westminster team, providing them with insight and data in order to help them engage with parliamentarians on behalf of farmers, who remain a large portion of our membership base.

Voice of the Farmer

We also speak directly to farmers themselves. Farming evolves all the time, so for the past 20 years we have reached out to more than 1,600 farmers each Spring with an extensive survey to listen to their needs.

Our annual 'Voice of the Farmer' research involves NFU Mutual customers across the UK and asks them a variety of questions, including their most important financial needs.

It enables us to get a real feel of the farming community, and the results are shared around the business, including with investments, to help us improve customer experience and tailor our products to them.

Website

Our quarterly 'View of the Investment Market' from Chief Investment Manager Paul Glover is uploaded to website quarterly. These views give our customers an insight into the market. Where markets dictate, we increase this to monthly.

Our Shareholder Engagement Policy is available online for customers, enhancing transparency of our engagement with companies we invest in. Summaries of our latest voting records are also available on that page, enabling customers to see how we have voted as shareholders.

Our Fund Centre provides customers with information such as fund factsheets, which explains what they are invested in, fund performance, and Key Investor Information Documents.

The NFU Mutual OEIC funds' half-yearly and annual reports are available online and detail the holdings in each fund, investment objectives, policies, and the investment manager's reviews.

Our With-Profits customers can access details of how we run the With-Profits fund online, together with the annual bonus rates, and our Principles and Practices of Financial Management (PPFM).

In addition, the website is updated with useful information for customers to help them deal with changes in the economy, from inflation to fluctuations in the market.

Customer Communications

All investment customers receive updates on their investments through regular statement reporting which details money in, withdrawals and valuations at the beginning and end of the period.

For our OEIC customers these are sent out quarterly and for other life and pension customers these are annual. We also ensure that customers are told about any changes we are making to the investment funds that they invest in.

This allows us to continually inform customers of how we manage their money and look to improve their outcomes.

In addition to direct communications, all customers have access to a wealth of information both on specific funds they are invested in, the funds we offer, or more general investment content that can help to inform their decisions.

Materials that are available for customers to understand their investments include, fund factsheets, key information documents, supporting marketing material, and website content.

We offer braille, large print and audio versions of documents as part of our communication outreach. In addition, in line with our induction process, all employees undergo training on how best to communicate with customers who may have additional needs.

As we move forward as a company, we continuously look at ways we can further develop our offering to our customers to ensure we are providing a first-class service that is accessible to all.

Example: Seeking views of pension scheme members

NFU Mutual's investment team invests on behalf of the company's pension scheme. In 2022, in-depth research with the scheme's members was carried out on their attitudes to responsible investment.

Members were asked for their views on how important they ranked investing in companies which take action on climate change, avoid social harm, or demonstrate strong governance standards.

They were asked for their opinion on specialist funds, paying higher charges for those funds, and whether they would consider contributing more to them if offered. Members were also asked for their opinion on engagement and disinvesting with the majority choosing for engagement over disinvesting.

Customer influence on NFU Mutual products

NFU Mutual looks to understand the views of its customers ahead of all product developments. We focus extensively on customer outcomes through the governance channels that are key in progressing these developments, and all developments must meet an identified target market and customer need.

These are driven from strategic reviews of the products we offer and the research we conduct to understand our customer needs. We also continually develop our customer messaging to align with feedback from customers, for example, how we manage their money sustainably, or how our investment processes look to deliver for them over the longer term.

Evaluating our methods

NFU Mutual has a dedicated Propositions team of eight full-time employees evaluating the effectiveness of our life and investment offering to our customers.

This team oversees our responsibilities under the FCA's PROD guidelines and produce an annual review for MUMCO Board to detail how we meet these requirements on an ongoing basis.

The team have a process set up for new fund developments and also significant changes that may affect customer outcomes.

This team is responsible for the Investor Sentiment tracker, our Value for Money assessments, and constantly assesses how effective our methods are in understanding the needs of our customers.

During the reporting period it was decided that our Voice of The Customer research, which is currently aimed at General Insurance customers, will be extended out to our Financial Services customers, including those who hold investments with us.

Suppliers

NFU Mutual works with its suppliers to ensure performance and to identify opportunities for enhanced value and innovation. Our Business Relationship Managers hold regular meetings with our key suppliers to ensure there is regular engagement in line with our procurement policies and practices.

Communities

NFU Mutual seeks to tackle a wide range of issues that are essential to building a more sustainable future for the communities we support.

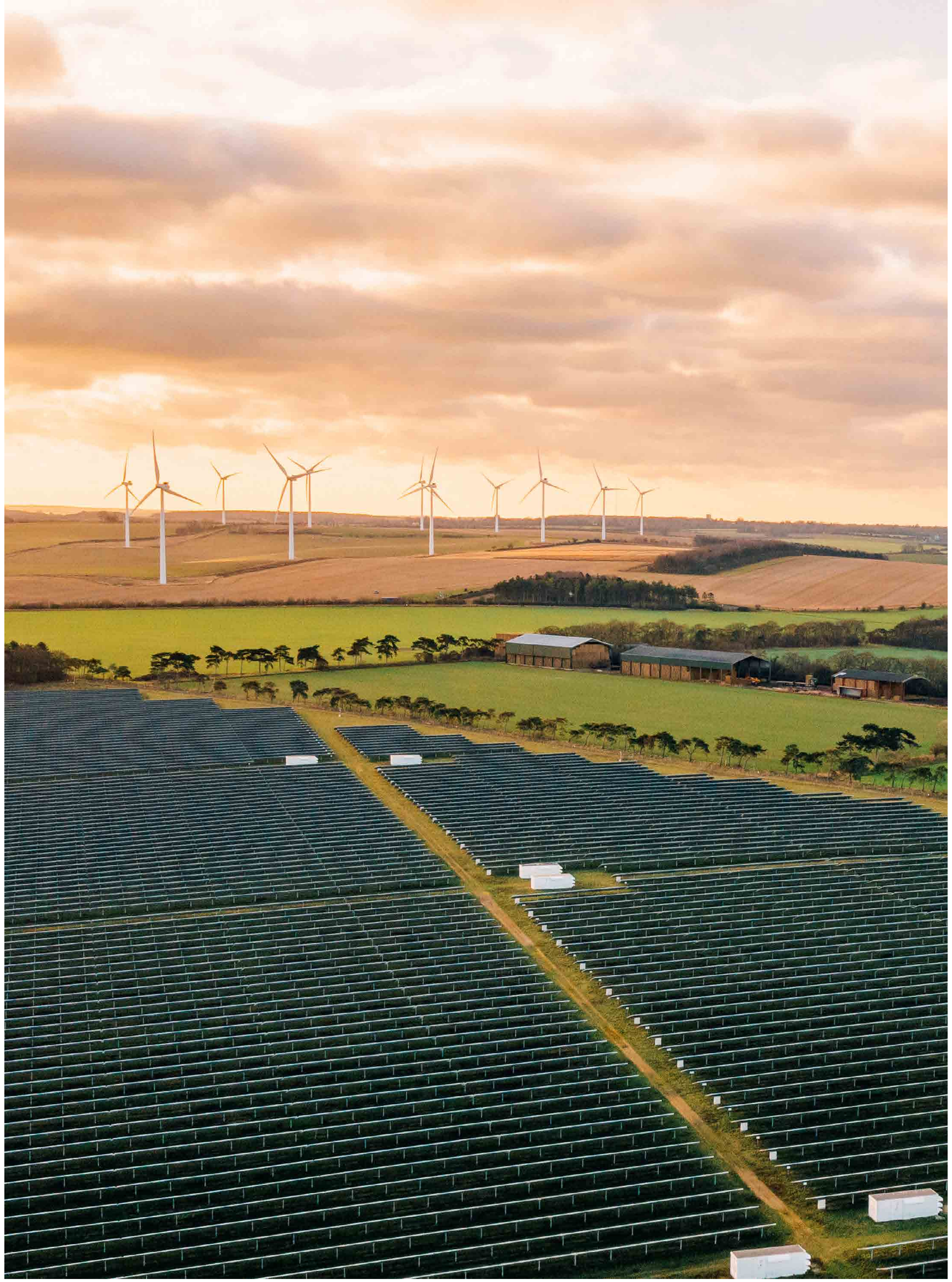
The Board receives regular reports on the Responsible Business activities, including the activity of the NFU Mutual Charitable Trust, the Farm Safety Foundation, and the Agency Giving Fund. The Board also receives regular updates on NFU Mutual's progress towards its Net Zero target.

Example: Serving communities through our Property Portfolio

Community engagement is an important and essential principle across our consumer-facing property investments. Our aim is to integrate our investments into local communities and deliver positive visitor experiences.

Across these assets we regularly run free community activities and sponsor local events including the Cheltenham Jazz Festival, Summer Jam Music Festival and Cheltenham and Worcester Arts Festival.

We positively engage with and have sat on local Business Improvement District Committees and advocate for positive change and improvement, and through our events programmes work with local charities to raise funds and profile.



PRINCIPLE 7: ESG INTEGRATION

Environmental, Social and Governance investing refers to how investors' money works in a sustainable way.

This broadly means that fund managers include non-financial factors alongside the more traditional financial measures. This builds a picture of how a company provides a positive contribution whether that be for the environment on issues such as climate change, for social change such as working standards, or for governance standards such as executive pay. The aim is to foster positive change through the companies that a fund manager invests in on behalf of its customers.

As long-term investors looking to build quality portfolios, our fund managers consider ESG factors throughout the investment process. We look to invest in companies that offer fundamentally sustainable investment opportunities and consider non-financial measures to be as important as more traditional financial measures in the long run.

Fund Managers use a mixture of internal and external research when considering an investee company and frequently meet with management teams or their representatives to ensure that their interests are aligned with our own and that we are comfortable the company has a strong culture.

We believe that an integrated approach to ESG allows us to invest more freely and affect positive changes. We also believe we are more likely to influence companies in a way that will ultimately benefit society if we have a voice as a provider of capital. It is important that we work alongside our investee companies to encourage quality and transparent ESG disclosures.

We believe this allows Fund Managers to invest how they feel appropriate and allows them to look for ESG opportunities.

Our own Net Zero plans

As part of our Net Zero roadmap, which sets out our long-term plan to achieve net zero operations by 2050, we have set a target to deliver 50% emissions reduction in our equity and corporate bond portfolio by 2030.

Our internal and external funds

NFU Mutual has a highly experienced team of long-serving fund managers based at head office in Stratford-upon-Avon who invest in company shares listed on major stock exchanges in the UK, North America and Europe as well as fixed income debt securities such as Gilts and corporate bonds.

We have fund and asset managers who manage the Group's £2bn property investment portfolio spread across the UK, covering industrial, office, retail, leisure and residential property.

We also utilise external fund managers for asset classes where we don't have the expertise or scale to manage these efficiently with internal resources. This currently includes international equities outside of North America and Developed Europe as well as Emerging Market Debt and high yield bonds.

At NFU Mutual we manage a range of diversified investment portfolios, and individual funds often have anywhere from 60 to over 100 holdings. Furthermore, we provide a range of fund of funds retail investment, where the number of underlying holdings would be many times higher.

How we encourage change

We assess companies along five key long-term ESG trends. How companies interact with these trends ultimately influences their credentials as a sustainable investment opportunity.

Responsible Consumption - We support companies that take proactive, measurable steps towards using resources responsibly, whether that is reducing plastic or water consumption. The leading companies of the future will minimise their raw material inputs and recycle materials instead.

Social Advancement - Following the global pandemic, it is key that companies provide access to improved healthcare, greater wealth, and financial systems to improve education.

Green Economy - NFU Mutual has committed to becoming Net Zero by 2050 and innovation is needed to help reduce carbon across a range of sectors. We want our investment to encourage developments in carbon capture and storage, as well as hydrogen fuel.

Sustainable Communities - Population growth and urbanisation require sustainable air quality and housing, while the conservation and preservation of nature is important to our global future. Companies contributing to both these goals have long-term futures.

Technology and Innovation - Advancements in medicine, energy, storage, space travel, computer processing, and science are likely to enhance our futures and help transition to a greener, more socially equal society. Investing in these areas will help facilitate important and necessary change.

Exclusions in our internal equity funds

In many circumstances we believe engagement rather than exclusion is the key to change. For example, if the global economy is going to transition to a lower carbon future, then all companies are going to have to mobilise their resources. However, those that don't show credible plans for transitioning are not appropriate long-term investments for our customers, and there are some areas where we actively exclude investment.

We don't use a simple exclusionary process to omit sectors although there are certain factors that will stop us from investing in a company, as outlined below. Our current stance on a number of areas are:

Fossil fuels

As part of our Net Zero roadmap, which sets out our long-term plan to achieve net zero operations by 2050, we have set a target to deliver 50% emissions reduction in our equity and corporate bond portfolio by 2030.

Our internally managed funds do not invest in companies that derive more than 10% of their revenue from the extraction of thermal coal. They do not invest in companies without a credible 2030 transition plan that receive more than 10% of revenue from thermal coal power generation.

Many energy companies are helping contribute technology and capital for long-term decarbonisation. If we have concerns about the transition plans of individual companies, we will engage with them first as shareholders.

Weapons

NFU Mutual operates with a Board mandate to not invest in companies who manufacture cluster munitions either internally or externally. Our internally managed equity funds don't invest in companies that sell or manufacture cluster munitions, anti-personnel mines, chemical weapons, biological weapons, or any company that receives more than 5% of revenue from civilian firearms.

Alcohol

As part of our ESG focus our internal equity funds only invest in alcohol companies that have strong corporate governance and policies in place that effectively ensure responsible marketing and consumption of their products.

Predatory lending

Our internally managed funds do not invest in any finance company that receives more than 5% of revenue from home-collected credit or short-term loans.

Adult entertainment

Our internally managed funds avoid companies that receive more than 5% of their revenue from adult entertainment.

Modern slavery

The best way to avoid companies with questionable supply chains is to focus on corporate governance standards. We monitor the UN Global Compact rating of the companies we invest in through the MSCI platform, and will engage with any that have been flagged as potentially violating the UNGC, have labour issues, or breach global norms.

Animal testing

Our internally managed funds avoid companies that apply animal test for cosmetics, personal care, or household products unless they are specifically required under law.

Board diversity

Our internally managed funds use the services of a proxy voting adviser (ISS) who will ensure that board diversity is taken in to account when voting on board member re-election. If standards fall behind expected targets in the UK, then ISS recommendations may include voting against the chair or members of the nomination committee.

Countries/regimes

Our internally managed funds do not finance countries, via government debt, that are subject to international sanctions or violate basic principles on human rights, labour, corruption, and the environment outlined in the UNGC.

Example: Carlsberg - Divesting from Russian exposure

Following the Russian invasion of Ukraine, NFU Mutual announced that we would divest from all Russian holdings as soon as practicably possible. Whilst this divestment related to Russian securities which were held indirectly through third-party asset managers our own Fund Managers also examined their own portfolio holdings to determine if they felt their exposure to Russia was appropriate.

One company identified within our funds with significant Russian exposure was the Danish brewer Carlsberg which in 2021 generated 10% of its revenue from Russia. In the months following the breakout of the war we continued to monitor the responses by such companies. In November 2022 we decided to exit our position in the company as no decision appeared to have been made by Carlsberg as to what it would do with its Russian business.

Exclusions in our external funds

External Public Assets

We employ external fund managers for a range of our asset classes including global equities and global bonds. Included within these are global equity index funds where we expect to have exposure to entire markets.

All of our externally managed funds are held in segregated mandates which allow us to operate an exclusion list. The exclusion list is communicated to all external managers.

State Street, the administrator/custodian, has coded the list into its compliance monitoring systems. The exclusion list can be updated, and managers informed, on an ongoing basis, to reflect any further restrictions.

The exclusion list includes companies identified internally as having potential links to the production of cluster munitions and all Russian assets.

ESG forms a part of the fund selection and monitoring process and all managers are signatories of the Principles for Responsible Investment (PRI). Our External Fund Selection Manager includes ESG within the fund selection process and will only invest in funds which consider ESG risk as part of the investment process.

Through the Mercer platform we receive third party scores to rate all of our external fund's ESG credentials.

At the end of June 2023, the passive equity manager we have employed has received the highest rating on the platform and the average rating of the active equity funds held within each region was above the regional average in all regions.

The average rating of our fixed interest managers in High Yield Debt and Emerging Market Debt was also above the sector average in both sectors. The ESG rating of our external High Yield debt allocation was previously below the sector average. During 2023, we

added a more highly rated manager to bring the average rating above that of the sector.

Since 2021, we have monitored the Weighted Average Carbon Intensity (WACI) scores of the external equity managers held on the Mercer platform, on a quarterly basis. The scores are based on data provided by MSCI.

At the end of March 2023, the WACI score for the overall Global Alpha portfolio demonstrated that it was 40% less exposed to carbon intensive companies than the overall composite benchmark of manager indices.

In 2023, further ESG analysis was performed using Mercer's ACT (Assessing Transition Capacity) tool, to gauge progress made towards NFU Mutual's net zero commitments. The study demonstrated that the WACI levels of NFUM's external Global Alpha and Strategic funds had fallen by 29% and 23%, respectively, since 2019.

External Private Assets

In the second half of 2022, we selected an external private asset specialist, to build a global portfolio of external real estate funds. As part of the selection process, request for proposals, which fully embedded ESG considerations, were sent to five external private asset specialists. Following selection, the ESG ratings of potential managers, and the ESG characteristics of the overall target portfolio, have been considered in ongoing JAB (Joint Advisory Board) meetings and discussion.

Fixed Income

Environmental and sustainability factors are an important aspect of NFU Mutual's decision making for Fixed Income and Cash investments.

Within Corporate bonds, environmental, sustainability and social factors are increasingly important when considering long-term corporate prospects. More debt issued by companies is explicitly linked to the funding of green, social, and sustainable business projects and goals.

NFU Mutual actively invest in these labelled bonds and routinely check the frameworks upon which they are based. We also consider these aspects for non-labelled bonds. ESG factors are reviewed alongside financials by most leading credit rating agencies, including S&P (to whom we subscribe) and we apply further analysis ourselves.

Key considerations for us are debt maturity profiles and whether valuations account for sustainability risks.

We engage daily with most major banks that represent corporate debt issuers, and our feedback is passed on, including thoughts around ESG factors.

Examples include our demand for labelled Housing Association bonds and our unwillingness to consider longer maturity bonds in some sectors like Tobacco. We also engage directly with several of the companies we invest in.

On Government debt, the UK has in recent years issued "Green Gilts," which have seen strong demand from investors.

We invested in the first issuance and have later increased our holdings in the secondary market. We engage with investment banks who have been commissioned to feedback investor preferences on targets to the Debt Management Office.

On cash, we closely monitor deposit counterparties and consider ESG credentials for all our Money Market Funds.

Example: ESG Resource & Internal Decision Making at NFU Mutual

In March 2023, the ESG team initiated a conversation with the Fixed Income team about a small holding in Saudi Aramco USD bonds. Whilst the holding didn't fall outside of NFU Mutual's ESG policies it was flagged for further investigation as the state-backed giant has less developed transition plans compared to many other oil majors, and it carries a degree of geopolitical risk.

The Fixed team noted that the holding had performed well, with the credit spread tightening since purchase. On reflection, potential environmental and political risks seemed to be under-priced by the market and better alternatives for the portfolio were available. The Aramco holding was subsequently sold.

Commercial Property

The property investment team manage around £1.8bn of UK real estate investments on behalf of the Group. The aim is to invest in opportunities that afford long term sustainable performance and which align to an integrated ESG approach.

As an investor in commercial property, we help provide facilities and spaces for businesses to operate and grow in as a consequence of our diversified portfolio and fund activity.

Over the last two years this includes funding the development of more than 3 million sqft of brand new industrial warehouse accommodation, developing an estimated 3,000 residential units in regional city centre locations through our Apache joint ventures, and the development of Unilever's new European HQ in Kingston within our Hathaway joint venture. A key strategy for the portfolio is to de-risk the legacy portfolio to enhance sustainability and energy efficiency fundamentals through refurbishment and integration of green energy technology.

We understand that our investments can positively impact nature and biodiversity, and will use our influence to safeguard and enhance this where possible. We identify opportunities for pollution prevention which will have a beneficial impact on nature and biodiversity.

Managing assets on a day-to-day basis in line with ESG philosophy is an essential requirement in the portfolio. Property managers are instructed to manage properties and collaborate with our 300-plus tenants to create a culture of reduced energy, water, waste and landfill.

Our property investment portfolios are decarbonised over time in line with our Net Zero roadmap, and we are committed to a 100% emissions reduction by 2050.

A key aspiration for the property team is reduction of carbon emissions by 50% by 2030. To assist and where responsible, the property investment team has a policy to only procure green energy. Carbon data is currently based on estimated data through our subscription to MSCI. We aim to obtain actual data by the end of 2023 and have commenced the introduction of smart technology to assist the capture of data.

In 2022, over £300m of property investment transactions were completed, with an additional £290m of transactions in the first half of 2023. A significant aim of all transactions is to positively contribute to our ESG strategy by improving our risk profile through enhanced energy performance ratings. Where NFU Mutual is responsible for electricity procurement across our property investment portfolio, we only acquire green energy.

In 2022, 100% of electricity procured across property investments was renewable where NFU Mutual was responsible for the supply. We have committed to doing the same in 2023 and are working with tenants to encourage similar procurement strategies where they are responsible.

During the reporting period, 100% of new and amended property investments leases include green lease clauses.

We are committed to 100% of new property developments being rated with a BREEAM (Building Research Establishment Environmental Assessment Method) status of very good or better. BREEAM is the world's longest established method of assessing and rating sustainability of buildings.

Our property investment team also screen the tenants that occupy our buildings based on the Science Based Targets initiative (SBTi).

Property investment transactional and asset management strategy remains focused on improving energy efficiency and sustainability. Extensive due diligence is undertaken in respect of environmental impact. Portfolio EPC ratings are a key ESG indicator and since 2019 ratings have materially improved with 80% of the portfolio currently attracting ratings of C or better, ahead of the 2027 regulatory deadline, and over 50% of the portfolio attracting the best A/B ratings, ahead of the 2030 regulatory deadline.

Example: Acting as a responsible landlord

Our property portfolio continues to operate a green energy procurement policy, where only certified renewable electricity will be procured. The Fund has appointed global data analyst, and benchmark provider MSCI to report on carbon consumption and value at risk.

In the three years between September 2019 and September 2022, estimated portfolio carbon emissions have reduced by almost 10,000 tCO2e, equivalent to a reduction of 33%. Current total carbon emissions reflect just over 19,000 tCO2e. As at June 2023, MSCI reported the property portfolio having a 2% capital value at risk in respect of climate risk compared to a benchmark of 3%.

To further extend our influence over the carbon emissions across the property portfolio, the property investment team has continued to implement and deliver a green lease framework that establishes a platform of collaboration between landlord and tenant. The property team has also implemented technological solutions, including the installation of smart technology for the collection and reporting of energy data, and the installation of electric vehicle charging and solar panels.

PRINCIPLE 8: MONITORING

We believe that as an asset owner it's important that we monitor our service providers effectively. This allows us to ensure they are delivering services to meet our needs and allow us to meet the needs of our beneficiaries. By monitoring our service providers and holding them to account when they do not meet our needs or expectations, we are able to help contribute to well-functioning financial markets.

NFU Mutual's investment function uses a wide array of service providers to help deliver its stewardship requirements, including investment brokers, proxy advisers and most significantly, asset managers.

We use external fund managers to invest in markets where we don't have internal expertise, including some international equity markets, high yield debt and emerging market debt.

We use an investment platform provided by Mercer, a global investment consultancy, to pick the majority of our external fund managers. Their performance is formally reviewed by NFU Mutual and Mercer at a quarterly Joint Advisory Board (JAB).

External fund performance is also formally reviewed at the quarterly Executive Investment Committee and on a regular basis in the Investment Office weekly team meetings.

There are quarterly or semi-annual reports produced on each fund. This typically includes performance attribution, current positioning, outlook, and any significant changes to team or process. Suitable files for all relevant investments are provided by Mercer on a quarterly basis for Solvency II reporting and we hold regular meetings and conference calls with portfolio managers and product specialists. Regular meetings and conference calls with Portfolio Managers and Product Specialists take place, at least annually.

The Joint Advisory Board (JAB)

The Joint Advisory board is a quarterly meeting that takes place with representatives from the NFU Mutual Investment Office and Mercer, who act as the platform providers for our externally managed funds and also provide operational due diligence and ESG ratings for external funds.

Mercer provides NFU Mutual with independent ratings for investment performance, risk, and ESG performance for each of the fund managers accessed through the platform.

When considering performance of our external fund managers, we believe that short-term underperformance should be tolerated as long as the reasons are acceptable, and the behaviour is in line with the process.

Studies show that fund changes by institutional investors detract value on average, because funds with poor recent performance tend to be sold for funds with strong recent performance. The performance of the former subsequently improves while the latter deteriorates.

However, fund managers who underperform over a sustained period of time will be identified through the JAB meetings. If it is felt that further analysis is required to explore why a fund manager is not performing as expected then we may require Mercer to produce more analysis of that external fund manager.

Engaging with external fund managers

Alongside the reporting provided by Mercer, we regularly hold direct meetings with external managers. Our External Fund Selection Manager will always attend such meetings and will be supported by another member of the Investment Office. These meetings provide opportunities to gain insights directly from the managers and provide us with an opportunity to exert our influence.

Where managers are not meeting our expectations we have a number of options open to us. Initially we will engage with the manager to gain a better understanding of the reasons for underperformance and including checking that their investment thesis remains clear and well thought through.

To supplement our own review we may also source an independent assessment of the manager from Mercer. Other steps include negotiating a reduced fee until performance is restored, reducing allocations to the manager or finding an alternative strategy/manager and moving or selling down the holdings.

In the reporting period we have negotiated a reduced fee until performance is restored with one manager and reduced allocations to a few other managers.

Other Service Providers

At NFU Mutual, we have a structured review process for all service providers which tailors the scale and frequency of formal reviews depending on the nature of the relationship. We complete an annual review of all investment counterparties and third parties using leading data providers to monitor risk of insolvency and therefore a discontinuation of service. There are additional checks on counterparties where there is a higher potential likelihood of failure to deliver.

As the custodian of most assets that NFU Mutual oversees, JP Morgan is measured against a detailed scorecard every year and asked to respond to our feedback in each of the areas covered. We also conduct service level review meetings for every six-month period to review detailed metrics specific to the services they provide. Where the standards we expect are not being met, actions are taken. Monthly review calls provide a more frequent opportunity to review progress on actions and escalate any issues that have occurred in day-to-day operations where expectations are not being met.

The breadth of services alongside custody of assets provided by BNY Mellon means that they are subject to NFU Mutual’s highest levels of formal review and oversight. The supplier scorecard is carried out every six months and other oversight activities are tailored to the service provided. We have monthly service review calls on all areas of the relationship (custody, fund accounting, transfer agency) in consistency with our biggest custodian, monthly desk-based monitoring of Fund Accounting and quarterly service reviews with the Depositary. There is also an annual formal review of the fund accounting operations.

Example: Restricting Empty Voting

During the reporting period we have engaged with our custodian to explore how we can restrict the possibility of empty voting taking place on our equities when we participate in stock lending. For some of our accounts JP Morgan oversee stock lending for us, this allows us to generate extra income which is used to offset custodian fees. However, we were becoming increasingly aware that this may hamper our ability to exercise our shareholder rights due to empty voting.

We held a number of calls with JP Morgan to understand how we could address this. We now have a process whereby we have restricted all lending on certain stocks. Alongside this we have a process where we review weekly data of companies with upcoming shareholder meetings. If we have a significant position in a company, we will instruct JP Morgan to restrict any lending on this stock and re-call any shares which may be on loan until after the meeting has taken place, allowing us to exercise our voting rights.

JP Morgan provide us with daily reports of our stock lending positions allowing us to monitor these, we are also able to monitor shares on loan through our proxy voting platform provided by ISS.

Monitoring our Proxy Voting Provider

We recognise that our proxy adviser is a key service provider in terms of our stewardship efforts. To ensure that our shareholder rights are being deployed appropriately we closely monitor this provider in several ways. We hold regular voting meetings where the recommendations provided for upcoming meetings are reviewed to ensure we agree with them on key resolutions. We also review voting records quarterly allowing us to monitor which topics are most commonly resulting in recommendations to vote against management.

Each year we produce annual voting reports for the trustees of our pensions scheme and for the NFU Mutual board. These provide details of voting throughout the previous year including voting data of both our internally managed assets and those managed externally for which our third party assets managers vote on our behalf.

We hold an annual meeting with our proxy provider allowing us to review the services they have provided and explore if there are any further services they can offer to us. Our proxy provider also provides us with market wide research, such as proxy season previews which can be useful in helping us to understand any changes that may have been made to voting policies and understanding anticipated themes which are likely to be relevant in upcoming meetings.

PRINCIPLE 9: ENGAGEMENT

Engaging with the companies we invest in is key to our stewardship processes and therefore our wider ESG strategy, which is focused on influencing companies to benefit society.

Our engagement activity tends to be focused on companies we have the most meaningful investments in. This is typically where we hold a higher percentage of that company's stock and so we carry more influence, or in larger companies where NFU Mutual has invested a significant amount of capital. Subsequently, most of our engagements take place with investee companies of our active UK equity funds where we can hold meaningful dialogue with senior management.

Where we take smaller positions in companies, such as our US equity portfolios, we will identify a theme that is common to a number of companies within the portfolio and reach out to those where the issue is relevant or most material at the same time.

Our Fund Managers engage with companies in the day-to-day running of portfolios for a wide variety of reasons, including to:

- Improve corporate behaviour
- Discuss market updates
- Gain a deeper understanding and insight of the company
- Convey any misgivings or concerns we may have
- Improve corporate governance or ESG practices
- Discuss corporate actions
- Enhance shareholder value

There are a number of different ways our fund managers can participate in engagement, each of which are able to influence companies and enhance shareholder value. These include:

- Company meetings – one-to-one or group meetings that take place with board members, management teams or Investor Relations teams
- Company updates and earnings calls – provides education on company activities as well as Q&A opportunities to engage with company management
- Site visits – we participate in site visits and investor days
- Broker sessions – our fund managers regularly attend investor sessions organised by corporate brokers
- Correspondence – our investment team will engage with companies in one-to-one correspondence through calls, letters, and emails where appropriate

Example: Using ESG Ratings to Engage with Portfolio Companies

Since we have begun using an ESG rating provider we have looked to engage with portfolio companies on issues raised through issuer research. Alongside this there have been several cases where we have believed that our portfolio companies could be achieving a higher rating or that they should be initiated with an ESG rating where they don't already have one.

An example where we have engaged in this way is with property company Urban Logistics. We initially discussed their disappointing ESG score in November 2021 when they informed us they had been in dialogue with MSCI. In November 2022 we discussed this issue with them again and whilst their rating was yet to improve, they demonstrated ESG improvements that they had made, such as improvements in independent GRESB scores.

In January 2023 their ESG rating was upgraded from 'CCC' to 'A' with the company commenting on the "significant improvements made in ESG performance and reporting in the recent period".

After discussing with Urban Logistics and their joint corporate broker regarding ESG ratings over a period of 14 months, we were pleased to see that their engagement with MSCI resulted in an improved rating as we always thought CCC was too low. The report still highlights areas that can be improved on which we believe would also help the operational running of the group so we will continue to engage with Urban Logistics as a long-term shareholder to push for further improvements that will benefit all stakeholders.

Engagement Activity

NFU Mutual has engaged with a significant number of companies during the reporting period for a variety of different reasons. We frequently engaged with companies on corporate and ESG performance as well as on progress against decarbonisation targets. We have continued to engage with companies on their exposure to Russia where it exists and encouraged our portfolio companies to divest from Russian assets where possible. Elsewhere, we have frequently engaged with companies on inflation, interest rates and the impact of an economic slowdown. Interest rate discussions have often focused on increasing financing costs for investee companies as well as the potential for higher rates to impact the consumer.

During the reporting period we engaged with companies a total of 346 times. These spanned a variety of different topics including more traditional areas such as strategy, performance and outlook. Our fund managers now frequently engage on ESG topics when speaking to companies, reflected in the fact that 223 engagements included ESG themes.

Engaging with highly emitting sectors

Engaging with companies in highly emitting sectors is an important area of our stewardship strategy as we focus on meeting our medium-term Net Zero targets.

We regularly use carbon data to gain insights into our investment portfolios. As we work to achieve our carbon reduction targets it is important that we are able to monitor and understand which companies are making good progress on carbon reductions, which are contributing most significantly to the footprint of our portfolios and which companies may require more attention and engagement.

During the period we engaged with BP after an announcement stated that due to the company increasing future investment in oil and gas production they would not meet some of their earlier stated goals.

We told BP we found this announcement disappointing, and highlighted that like many others in the industry we now had goals relating to the footprint of our investment portfolios. The company responded by saying investment in oil and gas was being matched by investment in renewable energy, which therefore represented an acceleration of investment in this area.

We will monitor future announcements closely and will consider using escalation or collaborative engagement if necessary and we believe it will be effective to ensuring progress.

Occupier Engagement

Having a large commercial property investment fund means we act as a landlord to an array of different occupiers. Through direct engagement with our tenants, we aim to drive numerous outcomes including helping maintain the value of the portfolio, driving ESG solutions and helping contribute to well- functioning markets. When working with occupiers facing economic challenges we will always adopt a responsible approach to assist where we can to deliver long term solutions that benefit the occupier and the Fund. Since the pandemic mutual collaboration between landlord and tenant remains an essential approach to benefit delivery of long term performance.

Example: Avon Protection – Engaging as Long-term Investors

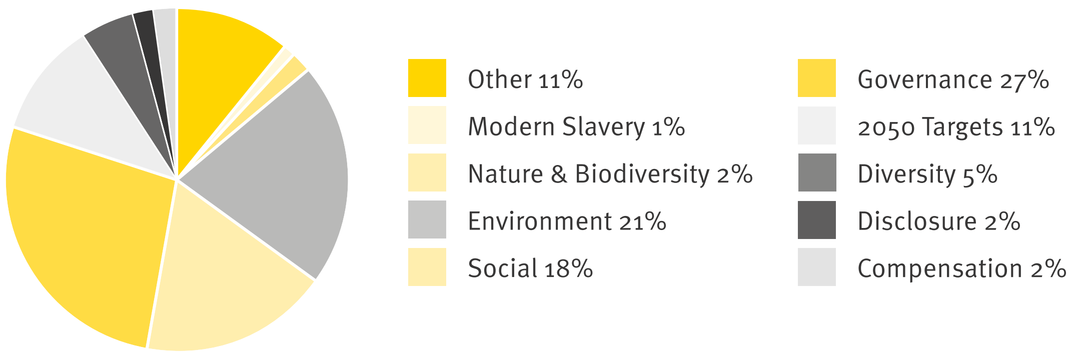
Avon Protection is a Wiltshire-based defence products company. They specialise in helmets, masks and the consumables required for their products.

NFU Mutual has held a position in Avon Protection for more than 10 years. Following a very difficult period during the Covid pandemic, Avon experienced poor trading and issues with some of their products. Most notably, testing of some of their new products was unsatisfactory and this was impacting orders.

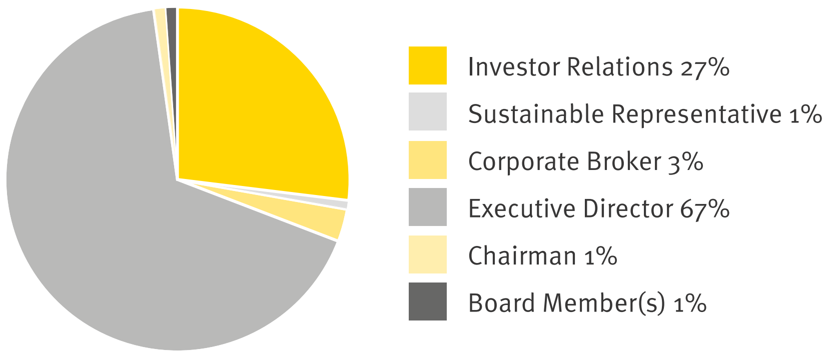
We engaged regularly with management over the period and discussed some potential changes to strategy and personnel with wider board. The decision was taken that the company needed new leadership; a decision we felt was correct. A new CEO was announced to the market in 2022. Before officially starting the role we spent time with the CEO-elect, this gave us the opportunity to engage in two-way dialogue and encourage the changes that we felt were best for the business. Following this, there have been significant improvements in transparency, communication and cost efficiency.

In recent times Avon Protection has become the subject of public criticism from an activist investor asking for large and comprehensive change. Given that Avon has recently gone through a change of both management and strategy we believed this wasn't timely. We fed back through intermediaries that we did not support this action and that Avon needed time to implement the changes they had already made.

ESG Engagements 01/07/2022 – 30/07/2023



Engagements with Company Representative 01/07/2022 – 30/072023



PRINCIPLE 10: COLLABORATIVE ENGAGEMENT

We recognise that contributing to collaborative engagements within the investment industry is an important aspect of stewardship that can help lead to change, as many voices can be more powerful than one.

In early 2023 we became a member of the Investor Forum, which is a collection of institutional investors with a focus on investments in UK-listed companies. The Investor Forum looks to place stewardship at the heart of investment decision making and focuses on creating long-term solutions to enhance shareholder value.

The Forum's place in facilitating collective engagement was particularly appealing to us as it places an emphasis on engagement with UK companies. We believe the Forum sets sound principles to its collective engagement criteria. Before engaging with companies, the Forum is proactive and grounded in economic rationale, analyses whether there is a long-term focus and if there is likely to be a constructive solution.

The Forum provides further support to our stewardship efforts through its Stewardship 360 programme which brings investors together to collaborate on wider material issues that impact companies, industries, and the environment in which they operate. The Forum develops insights gained from engagement activities and seeks to address broader themes which are important to members. Projects also focus on promoting well-functioning markets or addressing wider stakeholder issues.

We have joined in collaborative engagement with the Investor Forum during the reporting period, however, as details of this are currently confidential under the Forum's collective engagement framework, we cannot currently report any details of this. We anticipate that an update will feature in our next report.

Becoming members of the United Nations Principles for Responsible Investment in early 2022 and the Investor Forum in 2023 demonstrates how we have increased the avenues available to us to engage collaboratively with other investors.

Example: Votes Against Slavery

In early 2023 we joined the Rathbones Votes Against Slavery initiative through the PRI Collaboration platform. The initiative, led by Rathbones, targets FTSE350 companies which fail to comply with Section 54 of the Modern Slavery Act (2015).

This year the initiative has identified a number of companies who were not reporting as they should do in their modern slavery statement. Engagement with these companies has resulted in the majority of them updating their statements so that they are now compliant. This is a great example of the power that collaborative engagement can have in positively influencing companies.

In addition to these positive industry-wide initiatives, since 2022 we have held regular consultation meetings with another mutual asset owner and manager with similar member needs as us. This is an informal meeting that allows us to exchange thoughts on ESG matters and to identify common holdings which may provide the potential for collaborative engagements. These will be prioritised where both parties have a significant shareholding and where we agree that there is a need requiring engagement.

Example: Collaborative Engagement on Climate Risks

During the reporting period, we have worked collaboratively with another insurance company to engage with a specialist UK bank on two occasions.

We initially contacted the bank in July 2022 to gain further understanding of their approach to managing climate change risks. We asked the bank to comment on what analysis they were undertaking to understand the risks of incoming regulatory changes as well as the potential impact if such regulations were tightened. We also asked the bank to comment on what actions they were taking to reduce their financed emissions.

In September 2022 we were pleased to receive a detailed response from the bank's CEO. This outlined many of the actions being taken to mitigate the climate change risks to which they are exposed. Amongst other things, the company set out that they have SBTi (Science Based Targets initiative) aligned net zero targets for 2050.

We wrote again in June 2023, thanking the company for their reassuring response and suggesting improvements we would like to see within their climate reporting. This included increased reporting of climate metrics and making reporting more quantitative in the future.

We also requested that the company released its planned climate transition plan as early as reasonably possible. At the time of writing, we are awaiting a response to our second letter and hope that the bank take our suggestions into account with their future approach to reporting climate risks.

PRINCIPLE 11: ESCALATION

Stewardship engagement with our investee companies is developed and prioritised by our Fund Management and Stewardship teams and is based on our view of the materiality to the long-term investment case for a business. How and where we escalate our concerns is highly dependent on the particular issue. At NFU Mutual, our investment team escalates stewardship activities when we feel it is appropriate and that initial engagement activities have been ineffective. Our objectives for the escalation is always to affect the change we feel is necessary to maximise outcomes for all long term stakeholders.

Our approach to escalation does not tend to differ across funds, we take a unified group decision on stewardship issues and we pool shareholdings to maximise our influence. However, we do see some differences across geographies.

Most of our escalation takes place in the UK, where we hold more significant positions. For our direct holdings in the US and Europe, we will generally escalate concerns through letters and emails. However, this may be followed up by engaging directly with a company representative. Many of our US and European holdings do not provide us with voting rights, however where they do this may provide another route to escalation. Ultimately, our options beyond this are limited and escalation is more likely to be through exiting an investment by selling our holding.

Escalation of stewardship is a tool that is most effective if used sparingly and where we hold a significant holding of a company. Routes to escalation will depend on a case-by-case basis, depending on the nature of the issue and the company in question. Most of our escalation activity currently centres on operational issues.

We aim to maintain regular contact with the company representatives of all our holdings. Where we have a material shareholding, we seek regular engagement with executive teams and we prioritise the frequency and level of engagement to those were we can have the greatest effect and exert the most influence.

When concerns arise regarding an investee company, we have several options to engage and escalate issues. The escalation speed and route can vary depending on the particular issue, however the typical path of escalation is as such:

- **Talk to the executive management teams** on the specific issues in question and engage with company advisors to outline our concerns.
- **Seek engagement with company Non-Executive Directors, the Senior Independent Director or Chairperson**. If we feel an investee business is following the wrong strategy or we think there exists a governance, cultural or personnel problem, we reach out and express our concerns to the Chair of the board and other representatives.
- **Working in collaboration with other investors**. We communicate with other shareholders to share our mutual concerns, contemplate solutions, and gauge the appetite of others for the change that we believe is necessary.
- **Escalation through a Corporate Broker or Adviser**. We engage with, and express our opinions to, third parties appointed by the company who provide them with advice and investor feedback.
- **Votes against management**. This may be the recommendation of our proxy adviser, who will have engaged on our behalf. If we vote against recommendations made by our proxy adviser ISS (Institutional Shareholder Solutions), then we will contact the company ourselves to explain our stance.

Example: US holdings with Joint CEO/Chair Positions

In last year's report we outlined our engagement with a significant number of investee companies in our US portfolio where the CEO and Chair positions at a company are held by the same individual. This was a clear example to us of an area where the US lags the corporate governance standards we have come to expect in the UK. We wrote to each of these companies explaining our preference for the roles to be separated, outlining that we believe it can afford significant concentration of power to one person.

The responses we received to our engagement often pointed to other members of the board who fulfil positions similar to that of a Chair, however we believed in most cases this did not justify combining the roles. Subsequently, during the current reporting period we supported more than 40 shareholder proposals requiring an independent Chairperson. These resolutions were put forward at companies with influential figures in dual roles, such as Visa, Mondelez, PepsiCo, and Merck & Co.

Example: Voting against re-election at Saga

We decided to vote against the re-election of a director at Saga, the British company for over 50s, due to misalignment of pay with performance and the lack of recognition of the stakeholder experience during this time. We have raised concerns since 2019, whilst dissent was acknowledged, investor decisions do not appear to have been taken in the Committee's decisions, with similar remuneration concerns raised this year. Given persistent concerns, we thought the director did not warrant re-election.

Example: Escalating Engagement at The Restaurant Group

As a significant holder of The Restaurant Group, NFU Mutual has a long history of engagement with the business.

In 2020, the Covid pandemic proved particularly devastating for the leisure and hospitality industry. The Restaurant Group was left unable to operate from most of their portfolio due to lockdowns. The inability to generate revenue for a time forced them to come to the market to raise cash to meet their short-term obligations and keep operating until the country opened back up. We supported the company by participating in equity raises. We were confident that if it could weather this storm in the short term it was primed to succeed in the long term as the competitive landscape was likely to be less crowded once the pandemic had ended.

More recently, The Restaurant Group has been the subject of investor activism. A large shareholder has emerged publicly with several criticisms of the business and requests for change. We engaged collaboratively with the activists, we listened to their concerns and what they would like to see happen. We discovered that we shared common ground on some of their views but not all. This allowed us to go back to the board and reflect where we agreed with the activist shareholders, particularly around quality of reporting and balance sheet priorities. However, we also provided our support to management in the areas where we felt a longer-term focus would yield better results for all stakeholders.

The Restaurant Group has already acted on several small measures that we thought were appropriate and the market has reacted positively to this progress. We have also interacted with The Restaurant Group to better understand its food supply chains and whether they align with agricultural stakeholders of NFU Mutual. Such discussions are made possible by constant interaction with the board and management team.

PRINCIPLE 12: RIGHTS AND RESPONSIBILITIES

Exercising our rights and responsibilities

We understand the duty we have as long-term stewards of capital and voting responsibly is an essential part of this. To guarantee that our votes are cast at all relevant meetings, we engage with a proxy advisor (ISS) to manage our institutional voting platform. Our use of ISS's expert recommendations ensures that we vote at the majority of meetings, our votes are informed, and are in the best interests of our stakeholders.

We believe that voting is a powerful tool for holding companies accountable and ensuring that they act in the best interests of their shareholders. As both an asset owner and manager, we have a responsibility to use our voting power to promote long-term shareholder value in a pragmatic and constructive manner.

We will always strive to maintain positive relationships with management, but we are prepared to vote against management if we believe that it is in the best interests of our clients or if the proposal is not aligned with our house views. We will tailor our interventions to the specific circumstances of each company and will always put our clients' needs first.

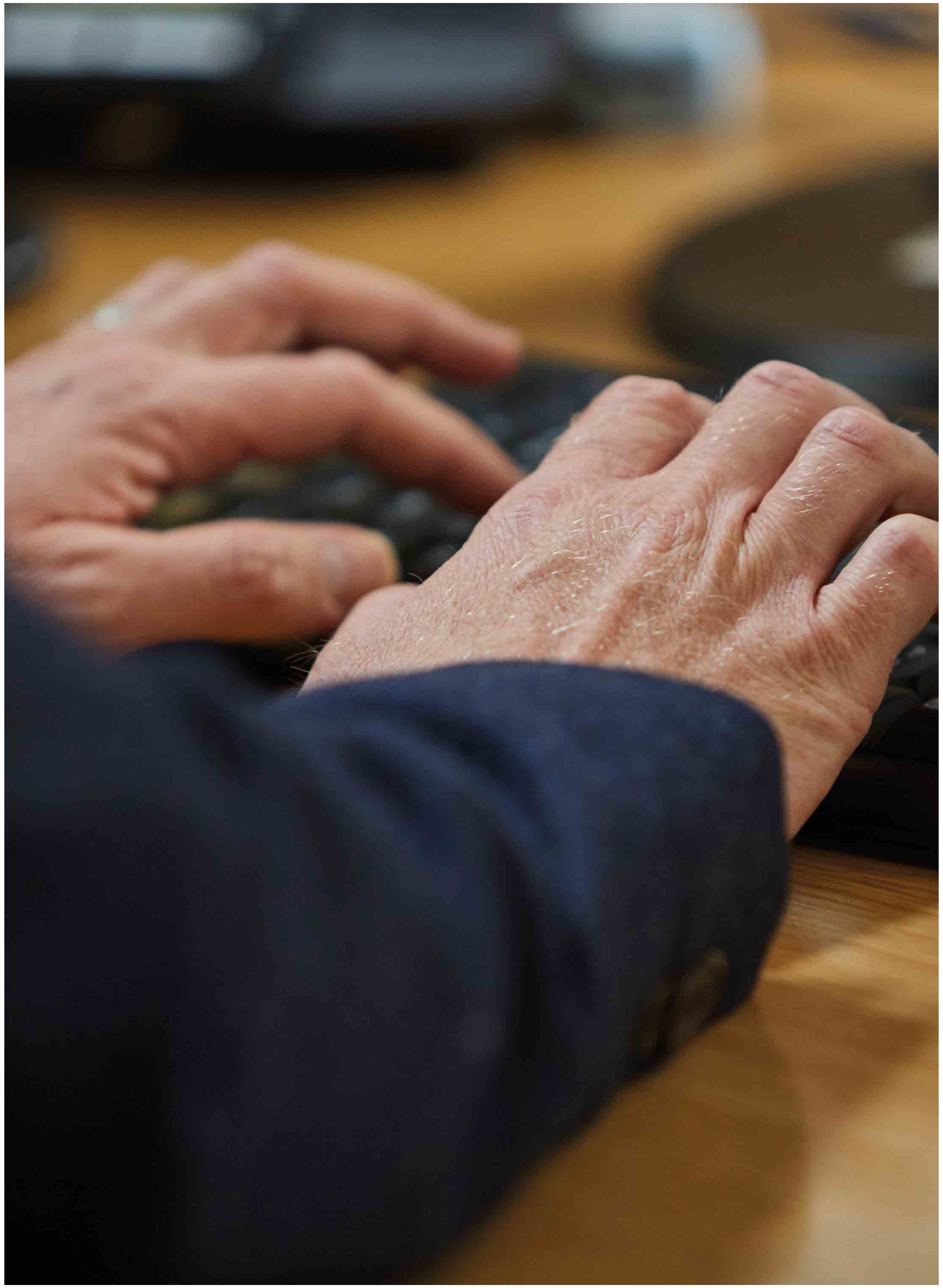
Ultimately, we aim to use our voting power to help companies create a more sustainable and equitable future for everyone.

Our approach to voting

We hold regular meetings to discuss upcoming shareholder votes. These meetings are attended by a dedicated ESG specialist and the Head of Equity. We focus on holdings within our UK funds for which ISS has flagged a resolution as contentious or recommended to vote against management.

We typically vote in line with ISS recommendations, but we reserve the right to vote against them if our views or our clients' best interests differ.

Voting meetings are typically held without the Fund Manager, as we believe that a relationship with the company board or management could make it difficult for them to be impartial. However, we may consult with the Fund Manager if we believe that their expertise is necessary to make an informed decision.



Approach for funds, assets and geographies

For our international portfolios, we are unable to review ISS recommendations as closely as we do for our UK holdings. This is because our UK holdings are prioritised due to location and more significant portfolio positions.

Shareholder resolutions are an important distinction of shareholder rights in the US. As a result, we have made this an area of focus and review shareholder proposals once we receive research from our proxy advisors. During the reporting period, we voted at 100% of votable meetings in the US and on 99.4% of proposals. We supported 41.84% of shareholder resolutions, voted against 56.79%, and withheld on 1.37%.

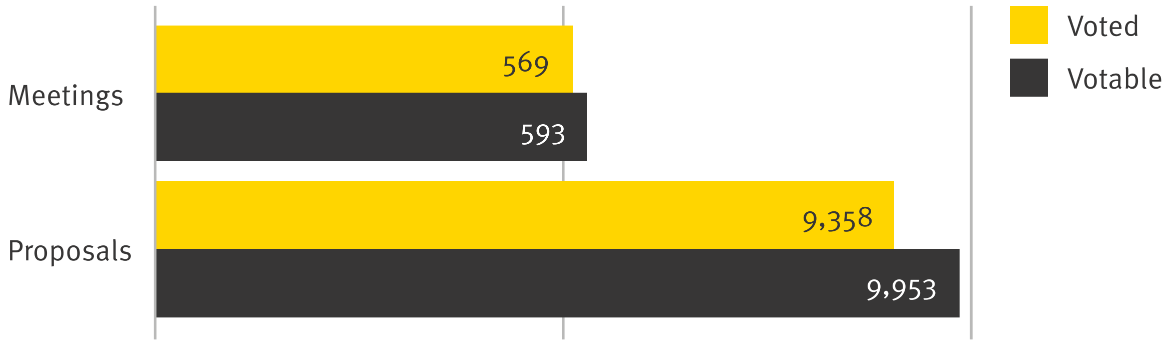
In line with our decision to encourage the separation of CEO and Chairperson roles at US portfolio companies, we voted on 42 shareholder resolutions of this type during the reporting period. These resolutions were put forward at companies with influential figures in dual roles, such as Visa, Mondelez, PepsiCo, Inc., and Merck & Co.

Our rights and responsibilities as an asset owner are largely derived from our voting rights in our listed equity portfolios, which include both our internally and externally managed equity funds. We report our holdings and voting rights quarterly, which allows fund managers to track the share classes they hold.

Occasionally, our fixed income portfolios also provide opportunities to exercise rights as bondholders. Our internal portfolios focus on investment-grade issuers, and while we have sought changes to bond terms and conditions in the past, we have not had to do so during the reporting period.

Across all of our internal holdings, we voted at 96% of voteable meetings during the reporting period, voting on a total of 9,358 proposals or 94% of all voteable proposals. We voted against management 308 times (3.24%), voted in line with management recommendations 8,627 times (90.63%), and abstained, took no action, or did not vote on the remaining resolutions. We aim to vote on all equities, except where impractical due to Power of Attorney (PoA) or share-blocking markets. PoA requirements vary by market and can be time-consuming and costly to obtain. Share-blocking markets impose regulatory barriers to voting, typically by limiting the trading of shares during the voting period.

Total Number of Meetings and Proposals



Voting policy

We expect the Board of the companies we invest in to have the experience and skills necessary to effectively oversee the company's management. The Board should be diverse, led by an independent chair, and comply with FCA Listing Rules requirements and the UK Corporate Governance Code. We will vote against directors who we believe are not independent or suitably knowledgeable, or who have too many external commitments that could impact their ability to perform their Board duties.

We believe that remuneration policies should be aligned with long-term shareholder value creation and should consider sustainability factors. Executive pay should be linked to challenging but achievable performance targets, and that there should be clear and transparent disclosure of remuneration policies and awards.

We support proposals that enhance shareholders' rights and give them a greater say in the Company's governance. We believe that shareholders should have the right to nominate directors and to vote on important matters such as executive compensation and capital structure.

We also believe that companies have a responsibility to act in a way that is sustainable for the environment and society. We support actions that help companies reduce their environmental and social impact, such as disclosing their climate-related risks and opportunities, and taking steps to transition to a low-carbon economy. We also support improved disclosure of other sustainability risks and impacts.

Recommendation of proxy advisor

Broadly speaking, our policy is to vote at all relevant meetings, except in the few remaining markets that operate share blocking policies or require Power of Attorney. The ISS voting policy guidelines that we utilise are summarised below:

- **Accountability**: Boards should be accountable to shareholders by holding regular elections, providing sufficient information for shareholders to assess directors, allowing the removal of directors, and vote on takeover defences.
- **Stewardship**: Companies should meet or exceed the standards of their market regulations and general practices on ESG matters. Constructive engagement should be recognised as both a right and responsibility.
- **Independence**: Boards should be sufficiently independent to effectively supervise management's performance and remuneration. There should be sufficiently independent committees that focus on key governance concerns such as audit, compensation, and the selection and evaluation of directors.
- **Transparency**: Companies should provide sufficient and timely information that enables shareholders to understand key issues, make informed vote decisions, and effectively engage on matters that impact shareholders' long-term interests in the company.

Voting, Clients and segregated mandates

We only manage pooled funds, which means that we do not allow our clients to direct our voting. However, we do take client views and feedback into consideration via surveys and focus groups. When making voting decisions, we weigh the various factors that are important to our clients, such as financial performance, environmental sustainability, and social responsibility.

We believe that it is important to be transparent with our clients about how we manage their investments, which includes being transparent about our voting practices. We publish our voting record on our website including information on the companies we voted on and the resolutions.

You can find the latest summary of our voting records with our Shareholder Engagement Policy here.

Stock Lending

We currently allow stock lending on some of our funds, with the proceeds used to offset custodian fees. In the past, our Fund Managers could add stocks to a restricted list at any point to prevent lending in that name, recalling stock to ensure all votes are cast in line with our views. However, this process was not perfect, as it could result in stocks being picked up by activists or being unable to be recalled in time for voting.

We have adapted the process by implementing restrictions in-house and having a rolling 60-day oversight of upcoming AGMs and votes. This gives us greater control over our voting intentions. We recall stock in contentious votes or when we are an influential shareholder to ensure that all votes are aligned with our views.

Our new process will help to prevent empty voting by giving us greater control over our voting intentions, regardless of whether or not we have lent our shares.

Example: Medica Group takeover

Following engagement with management, NFU Mutual became a shareholder in Medica at its initial public offer (IPO) in spring 2017 at a price of 135p. Medica Group PLC is a UK based health care company specialising in radiology solutions amongst other things. Assessing scans performed in medical settings requires highly trained and specialised individuals to read and interpret them. Many countries, including the UK, have a chronic shortage of specialists able to do this, creating backlogs in the health system. Medica has over 750 specialists able to provide a service to the UK healthcare system of diagnostics on demand for MRIs and X-rays for example.

In 2021 Medica made a particularly meaningful acquisition in the United States. As one of the larger shareholders we were taken inside by management to be pitched the merits of the deal as they needed to raise equity to fund it. The purchase gave Medica exposure to the US market and allowed them to utilise their specialists in a slightly different setting; clinical trials. We spoke at length with management and felt this was a great opportunity to support via the placement at 145p.

In 2023 Medica was subject to a takeover bid from a private equity firm. While Medica is a high-quality business with a strong management team, we decided that the offer price was fair. We felt the bid of £2.12 per share in cash represented an attractive premium and certainty of value for shareholders. As a result we supported the takeover and voted to approve it.

Example: Climate Transition - National Grid & SSE

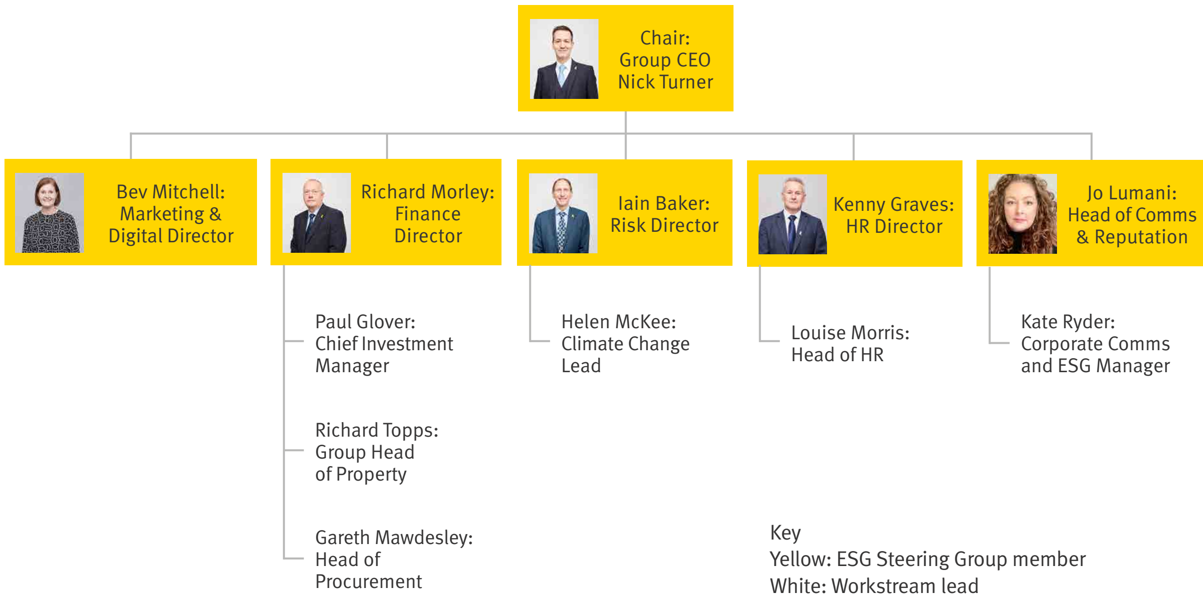
We supported National Grid's and SSE's Climate Transition Plans with both companies providing clear short, medium and long-term targets for Scope 1 & 2 emissions and medium and long-term targets for Scope 3 emissions. It was also well received that the targets set by both received SBTi approval in 2021, which is an industry-leading practice, and there was commitment to the TCFD recommendations.

Example: Aveva – Voting against a director not considered to be independent

We voted against the re-election of a director to the Remuneration Committee of industrial software company Aveva, given that it results in the committee falling short of UK Code recommendation to be fully independent. The Group's relationship agreement with Schneider Electric SE requires a nominee to sit on the Remuneration Committee and the Nomination Committee. As a result, the lack of alignment with the Code was identified as an area of recurring concern.

APPENDIX

ESG Steering Group and workstream leads



Key
Yellow: ESG Steering Group member
White: Workstream lead

Board Investment Committee

- Group CEO
- Finance Director
- Risk Director
- Non-Executive Director
- Non-Executive Director

Executive Investment Committee

- Finance Director
- Head of Propositions
- Chief Investment Manager
- Head of Investment Office
- Group Head of Property
- Head of Financial Control

ESG Forum

- Chief Investment Manager
- Head of Equities
- Head of Fixed Income
- Property Investment Manager
- ESG Stewardship Analyst
- External Fund Selection Manager
- Investment Product Specialist
- Proposition Consultant

Investment Management Team

- Paul Glover, Chief Investment Manager
  - Daniel Rogers, Investment Performance & Risk Manager
    - Warren Lillicrapp, Investment Service Relationship Manager
    - Nat Taundi, Investment Compliance and Risk Specialist
    - Dobe Chan, Investment Reporting Analyst
    - Fiona Roberts, Investment Performance Specialist
  - Adam Carroll, Head of Equities
    - Rowan Philpot, Fund Manager
    - Robert Platts, Fund Manager
    - Matthew Grimson, Fund Manager
    - Tim Sambrook, Assistant Fund Manager
    - Patrick Jolly, Investment ESG and Stewardship Manager
    - Charles Simkiss, ESG Fund Management Assistant
    - Michael Simpson, Investment Dealer
    - Rachel Brooks, Trainee Fund Manager
    - Connor Clark, Trainee Fund Manager
  - Matthew Bennett, Head of Fixed Interest
    - Neil Wicks, Fund Manager
    - Simon Kemp, Fund Manager
    - Keith Douglas, Fund Manager
    - Amber Taylor, Assistant Fund Manager
    - Jacob Delaney, Trainee Fund Manager

MEET THE INVESTMENT TEAM

Paul Glover
BSocSc (Hons) FCSI
Chief Investment Manager

Work history with NFU Mutual
Joined NFU Mutual after graduating from Birmingham University in 1986 with a degree in Money, Banking & Finance. Paul soon began to specialise in overseas equity markets and headed up the International Equity desk from 1992 until 2010. Now with over 35 years of investment management experience, he is in charge of the Investment Management Team as Chief Investment Manager.

Role and responsibilities
Directs the investment management strategies of the internally managed assets, joint lead manager of the multi-asset portfolios and oversees the smooth running of the investment department.

Matthew Bennett
BA (Hons) CFA ASIP
Investment Manager

Work history with NFU Mutual
Joined NFU Mutual in 1999 after graduating from Lancaster University with a first-class honours degree in Accounting, Finance and Economics. Two decades of experience of investing in global financial markets.

Role and responsibilities
Head of Fixed Income. Oversees and co-ordinates strategy, research and trading for internally managed Fixed Income and Cash. Also involved in the overall investment strategy and management of the multi-asset portfolios.

Adam Carroll
Mmath (Hons) CFA
Investment Manager

Work history with NFU Mutual
Joined NFU Mutual in 2004 after graduating from Warwick University with a first-class honours degree in Mathematics. Started in Fixed Interest before moving to the UK Equity desk in 2005. Became Head of UK Equities in 2010 and Head of Equities in 2017.

Role and responsibilities
Head of Equities. Oversees all aspects of research, strategy and trading for UK, North American and European Equities. Also involved in the overall investment strategy and management of the multi-asset portfolios.

Keith Douglas
BSc (Hons) CFA
Fund Manager

Work history with NFU Mutual
Joined NFU Mutual in 2009 after graduating from Queen's University Belfast with a degree in Finance. After eight years in the International Equity team moved to the Fixed Income team in 2017.

Role and responsibilities
Fixed Income Fund Manager with direct operational responsibility for a number of portfolios.

Jonathan Finning
BA (Hons), CFA
External Fund Selection Manager

Work history with NFU Mutual
Joined NFU Mutual in 2017. Jonathan has worked in financial markets for two decades, previously responsible for fund manager research and private client portfolio management at a global private bank. Prior to that, Jonathan worked as an equity and private equity analyst for a boutique hedge fund, and as a fund product specialist for Bloomberg. He holds a B.A. (Hons.) from Manchester University, and is a CFA Charterholder.

Role and responsibilities
Responsible for the analysis and selection of externally managed funds across multiple asset classes.

Matthew Grimson
MSc (Hons) CFA
Fund Manager

Work history with NFU Mutual
Joined NFU Mutual in 2011 after graduating with an MSc in Finance and Economics from the University of East Anglia.

Role and responsibilities
Equities Fund Manager with responsibility for running a number of portfolios.

Simon Kemp
BSc (Hons) CFA
Fund Manager

Work history with NFU Mutual
Joined the investment department in 2006 after graduating from Cass Business School with a degree in Investment and Financial Risk Management. Worked on the International Equity desk before moving to the Fixed Income desk in 2007.

Role and responsibilities
Fixed Income Fund Manager with direct operational responsibility for a number of portfolios.

Rowan Philpot
MSc (Hons) CFA
Fund Manager

Work history with NFU Mutual
Joined NFU Mutual in 2005 after completing an MSc at Manchester University. Following a period of rotations across all asset classes, Rowan has spent ten years working with the equity team.

Role and responsibilities
Equities Fund Manager with responsibility for running a number of portfolios.

Robert Platts
BA (Hons) MSc CFA
Fund Manager

Work history with NFU Mutual
Joined NFU Mutual in 2009 after graduating from Durham University with a degree in Finance. Initially part of the Fixed Income team, before moving to the UK Equity team in 2010.

Role and responsibilities
Fund Manager on the UK Equity desk with responsibility for running a number of the UK portfolios.

Amber Taylor
BA (Hons)
Assistant Fund Manager

Work history with NFU Mutual
After graduating from Winchester University with a first class honours degree in Business, Amber spent several years working in financial markets trading bond futures. Following a career break to raise her family Amber returned to investments, joining NFU Mutual in 2019.

Role and responsibilities
Operational responsibility for the NFU Mutual Deposit funds and liquidity management within the broader portfolios.

Neil Wicks
BA (Hons) MA CFA ASIP
Fund Manager

Work history with NFU Mutual
Graduated from Peterhouse, Cambridge University with a degree in Economics and joined NFU Mutual as a graduate trainee on the UK Equity desk in 1998. After a period on international equities became a Fixed Interest Fund Manager in 2004.

Role and responsibilities
Fund Manager for fixed income funds, including gilts and corporate bonds. Also coordinates fund management activities for a number of multi-asset portfolios.

Patrick Jolly
ESG & Stewardship Manager
BA (Hons)

Work history with NFU Mutual
Joined NFU Mutual in 2014 after graduating with a degree in Economics from the University of the West of England. Spent several years in the Life Sales team before joining the Investment Department in 2016.

Role and responsibilities
Responsible for the development of ESG policies and stewardship activities such as voting.

Charles Simkiss
BSc (Hons)
ESG Fund Management Assistant

Work history with NFU Mutual
Joined NFU Mutual in 2023 having previously worked in Financial Services. He graduated from the University of Nottingham with a degree in Finance, Accounting and Management.

Role and Responsibilities
Assists the Investment & ESG Stewardship manager with stewardship activities such as voting and ESG policies.

Connor Clark
BSc (Hons)
Trainee Fund Manager

Work history with NFU Mutual
Joined NFU Mutual in 2021 after graduating from City, University of London with a degree in Economics. Started as a Fund Management Assistant before moving to Trainee Fund Manager in 2022.

Role and Responsibilities
Trainee Fund Manager with responsibility for assisting the Equity fund managers with portfolio management and investment research.

Rachel Brooks
BA (Hons)
Trainee Fund Manager

Work history with NFU Mutual
Joined NFU Mutual in 2023 after graduating with a first-class degree in Economics and French from Cardiff University.

Role and Responsibilities
Trainee Fund Manager with responsibility for assisting the Equity fund managers with portfolio management and investment research.

Michael Simpson
Chartered FCSI
Investment Dealer

Work History with NFU Mutual
Joined NFU Mutual in 2023. Michael has worked in the Investment industry for over a decade, previously as an Investment Dealer at a global private bank. He has gained numerous industry qualifications, most recently completing the CISI's Level 6 Certificate in Private Client Investment Advice & Management.

Role and Responsibilities
Responsible for the facilitation of trades on behalf of the Equity Fund Managers, Michael ensures that orders are dealt appropriately, and best execution is achieved. Michael manages and maintains relationships with the appropriate external brokers with a focus on integrity.

Richard Topps
BSc (Hons) MRICS
Group Head of Property

Work history with NFU Mutual
Joined NFU Mutual in 1989 as a graduate surveyor after leaving university with a degree in Urban Land Economics. Has worked in various roles within the department before becoming Group Head of Property in 2010.

Role and responsibilities
Manages a team of over 60 people who look after facilities, premises, property finance and property investment. NFU Mutual has over 300 group occupied properties and a £2bn nationwide property investment portfolio.

Tom Bostock
BSc (Hons) MRICS
Property Investment Manager

Work history with NFU Mutual
Joined NFU Mutual in 2000 as a graduate surveyor managing the NFU Mutual occupational portfolio. Moved to the property investment team in 2002 and is now Fund Manager for our £1.8bn property investment portfolio.

Role and responsibilities
Manages the property investment team. Develops and implements fund and asset management strategies designed to maximise risk adjusted returns in line with regulatory and compliance requirements.

Timothy Sambrook
BSC (Hons) CFA
Assistant Fund Manager

Work history with NFU Mutual
Joined NFU Mutual's Actuarial department in 1990 after graduating in Mathematics at Bristol University. Moved to the Investment department in 1994 working on the international equity desk until 1999. Returned to NFU Mutual in 2022 following other roles in investments and academia to oversee European equities.

Role and responsibilities
Responsible for overseeing Developed European portfolios (excluding UK).

CONFLICTS OF INTEREST POLICY

Potential conflicts of interest can arise in fund management operations.

It is a requirement that all steps are taken to identify conflicts of interest that may arise either between clients and/or between clients and the fund manager. The FCA has increased their work in relation to conflicts of interest and conflicts management with recent update to section SYSC 10.1.

The following sets of policies of the NFU Mutual Group manage and mitigate any potential conflicts and risks of material damage to ensure fair treatment of all clients and have been created in line with sections SYSC 10.1.4 SYSC 10.1.10, SYSC 10.1.11 & SYSC 10.1.17 – 10.1.21,

Areas where conflicts may arise include:

- Inducements
- Personal Account Dealing
- Remuneration
- Insider Information
- Order Allocation

1. Inducements:

The NFU Mutual Group does not accept any inducements in the form of services or financial payments from institutions with which it trades. Any payments to such institutions are only in respect of executed trades or relevant services. Details of commissions and dealing volumes are recorded and disclosed.

The detailed policy and procedures in respect of potential inducements (gifts or hospitality) to individual fund managers is dealt with in a separate section at the end of this manual. Details of any potential inducement are recorded in the 'Gifts & Hospitality Register'. SYSC 10.1.4 (5)

2. Inducements and investment research

Under MiFIR/MiFID II research must not be used as an inducement; that is, it must not be provided with a view to selling additional services. As a result, all research must be paid for separately from trading commissions.

These provisions apply to all forms of equity and non-equity research, including written research, analyst calls and meetings, however there are some exceptions that can be deemed minor nonmonetary benefits and which, given the nature of the market, may apply to certain materials received from broker-dealers:

- Research paid for by a corporate third party to support a new issuance or potential new issuance.
- Research paid for by a corporate third party on an ongoing basis. (Any corporate funded research must be disclosed and openly available).
- Short term market commentary.
- Non-substantive opinion on macro-economic, market or company data.

Non-substantive sales notes, market colour or high level macro-economic commentary should not be covered by the new MiFID II definition of research and other types of material may also fall within the exemption. These can be received by the investment manager without charge and would not be an inducement, however ultimately it is for investment managers to assess themselves what is formally research and whether any benefit is minor in nature and scale.

Investment managers should only consume Investment Research from one of the approved providers that the Investment Department has an agreement with. The heads of each desk will review investment research providers and agreements on an ongoing basis in line with the department's annual investment research budget which is reviewed annually.

Investment Managers should make all reasonable efforts not to receive inducements. If unsolicited research is received, the investment manager should send a cease and desist notice to the provider using the pro-forma template in Appendix 3 and notify the Middle Office.

3. Personal account dealing:

The detailed policy and procedures in respect of Personal Account Dealing is dealt with in a separate section at the end of this manual. Personal trades require prior authorisation and details are recorded in the Personal Account Dealing file. SYSC 10.1.4 (3) and (4)

4. Remuneration:

The NFU Mutual Group does not receive any remuneration for investment services outside the fees detailed in client agreements.

No member of the investment management team receives remuneration from the outcome of any investment service provided to any client or of any transaction carried out on behalf of any client that is distinct from the client's interest in that outcome.

Remuneration of the fund managers within the NFU Mutual Group includes an incentive scheme based on the performance of relevant funds under management. It is ensured that remuneration remains consistent with the interests of clients generally by not linking to any specific trade or client and measuring relevant performance on a risk adjusted basis. SYSC.1.4 (1) (2) (2A)

5. Insider information:

It is a criminal offence to trade in a financial security when privy to insider information in relation to that security or to pass that information to a third party. As a financial institution with significant funds under management and as part of its wider security industry obligations the NFU Mutual Group will on occasion, receive many forms of communication (including market soundings) that may be considered confidential and hence insider information. Under the Market Abuse Regulation (3rd July 2016) asset managers are obliged to independently assess whether they are in possession of inside information, including taking into consideration information they may hold from sources other than the Discloser. When information received is deemed by the fund manager to be "inside" the information cannot be passed on to third parties including clients and no trades in the securities concerned can take place on behalf of internal or client funds. This situation will persist until such times as the information ceases to be relevant or becomes public knowledge. Anyone in the Investment Department who is made an insider (including Investments Administration where applicable), needs to be notified by the relevant fund manager as soon as they are made an insider and as soon as the insider period ends. This final or end notification should be sent to the Middle Office and should include the following;

- the beginning or start date of the insider period, (unless otherwise specified, this will usually be the date of the initial email);
- the end date of the insider period;

It is the responsibility of the Middle Office to verify this information on a quarterly basis as a part of the Quarterly Compliance Checks.

Fund managers should make all reasonable efforts to contain insider information to those who are intended to receive it. When communicating insider information, it is best practice not to use personal email groups or to copy in brokers. In these instances, individual email addresses should be used to ensure transparency of who has been made privy to such information. When inside information is communicated verbally (telephone calls/ in person) fund managers must ensure this is done in a secure environment separate from the rest of the department i.e. the Investment Department Meeting room. SYSC 10.1.4 (4)

6. Order allocation policy:

Details of all placed orders, including intended and ultimate allocation, are recorded in the investment manager's dealing log. All orders are pre-allocated at the time they are placed and ultimate allocations will reflect this. It is not permitted to reallocate orders other than in the case of errors. In such cases the details and reason for the reallocation will be recorded in the 'Investment Department Breaches & Errors Log'. The log can be found on the Investment department shared drive in the Compliance folder, under the sub-folder Breaches & Errors.

Alternatively, the error can be reported to the Middle Office for entry into this log.

Orders at the same price and via the same counterparty will be dealt with sequentially. Where there are outstanding orders in the same security at different prices, ultimate allocation will reflect the pre-allocation intention of each placed order.

There will be occasions where client orders are aggregated either with other client orders and/ or with internal funds. Aggregated orders will occur when a new issue or placing requires all of the funds we manage to apply in one block or will be done where it is in the interest of more than one fund to trade in the same stock at the same time. Where it is clear that smaller orders are likely to achieve the best result for clients, orders will be placed individually, or aggregations will be limited to the optimum size.

While in the appropriate circumstances, aggregated orders can normally be expected to achieve a better result; there may be occasions when the actual outcome of aggregation produces a less advantageous result.

Aggregated orders will be pre-allocated and final allocations will follow accordingly. As referred to above re-allocations will not be permitted.

Allocations of partially completed orders will be dealt with as follows. For pre-allocations to clients (in this instance clients refers to the pension scheme and the OEICs), the initial approach will be to fill them in priority to other funds, unless it is clear that the order would not have been completed even to the partial amount without aggregation (likely in a new issue or placing scenario where the scale of the Group funds enable a larger overall allocation to be secured). In such cases, orders may be allocated proportionately with reference to the pre-allocation but will always give client funds at a minimum their proportionate allocation and often a higher share.

Where such proportional allocation would produce uneconomically small amounts, clients will be favoured when determining practical allocations. In certain rare circumstances, however, the most appropriate allocation to a client involved in an uncompleted order may be a nil allocation (e.g. even if the entire amount was allocated to the client it would still result in an uneconomic initial holding). Uneconomic amounts will vary given the size of each fund and fund manager judgement will be used to determine this.

Actual allocation of an uncompleted aggregated order will depend on the particular circumstances and be the result of a judgement taking into account the above together with factors such as recent trades in the relevant security or existing holdings. Where a client fund is not allocated in full, the detailed criteria used for the actual allocation and methodology will be recorded in the dealing record log.

A record of each order that was not carried out by the broker should be made in each respective dealing log together with the reason why the order was not carried out by the stockbroker. For example, the stock could not be obtained or sold at the price requested, or the stock is illiquid and sufficient volume is not available. SYSC 10.1.4 (3)

7. Connected party transactions

Connected parties cannot initiate trades, including deposits and money market instruments with any counterparty with which they have a pre-existing relationship. Wherever possible, connected party transactions should be avoided. Where there is no alternative however, the trade must be approved and reviewed by the head of desk level or higher.

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