

SUMMARY OF PRINCIPAL ADVERSE IMPACTS – INVESTMENT DUE DILIGENCE POLICY

10 March 2021

This document summarises the investment due diligence policies of Leadenhall Capital Partners LLP and its subsidiary undertakings from time to time (the “**Firm**”), in respect of the principal adverse impacts of our investment decisions on sustainability factors.

The EU Sustainable Finance Disclosure Regulation (“**SFDR**”) requires the Firm to make a “comply or explain” decision on whether to consider the principal adverse impacts of our investment decisions on sustainability factors. The Firm has decided to comply with that regime. The Firm is required to publish and maintain on our website a statement on our policies with respect to principal adverse impacts.

This document is divided into four sections:

1. Information about our due diligence policy on the identification and prioritisation of principal adverse sustainability impacts and indicators (the “**PAI Policy**”).
2. A description of the principal adverse sustainability impacts and of any actions taken or planned.
3. A brief summary of our shareholder engagement policy.
4. A reference to our adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting.

This document may be updated from time to time. This document is provided for information purposes only. In the event of any inconsistency between this document and either (i) the PAI Policy, (ii) any other policy which is referenced in this document, or (iii) the terms of any agreement between the Firm and any of its clients, such other document shall prevail. No person should take (or refrain from taking) any action as a result of this document. To the maximum extent permitted by law, no liability is accepted by the Firm in respect of this document.

1. **Information about the Firm’s PAI Policy**

- 1.1 The Firm has implemented its PAI Policy as from 10 March 2021, to set out how we identify and prioritise adverse sustainability impacts and indicators, in our investment due diligence processes. This section of the document summarises certain key provisions of the PAI Policy.

Scope of the PAI Policy:

- 1.2 The PAI Policy approaches sustainability from the perspective of the harm that our investment positions might do externally to sustainability factors, and what steps we take to mitigate that harm. This is based on our corporate sustainability values.
- 1.3 The Firm’s investment professionals must apply the due diligence measures specified in the PAI Policy whenever they are making any investment decision, subject to the exceptions described below.
- 1.4 The SFDR permits certain financial products not to comply with the firmwide principal adverse impacts policy, even where the management entity is generally complying with the principal adverse impacts regime. The Firm has decided that, while it will generally comply with the PAI Policy across our product range, certain products will be excepted from compliance. Products which may be excepted include, for example those which consist entirely of transactions with smaller counterparties which, because of their size, are highly unlikely to cause the Firm concerns under section 1.5.

Principal adverse indicators – diligence phase:

- 1.5 Prior to making any investment decision, our investment professionals (referred to below as the “**relevant investment professional**”) are required to conduct investment due diligence on the proposed investment position. This investment due diligence will evaluate a variety of factors including (for the purposes of the PAI Policy) an assessment of how the proposed investment position is assessed against the following sustainability indicators:
 - carbon emissions, broken down by scope 1 and 2 emissions;
 - carbon footprint for scope 1 and 2 emissions;

- total energy consumption from non-renewable sources and share of non-renewable energy consumption;
- energy consumption intensity;
- signatory to UN Global Compact;
- severe controversies / breaches of UN Global Compact;
- human rights and labour policies;
- board and managerial gender diversity; and
- fair operating practices.

1.6 Having completed the diligence exercise, the required data points must be recorded in the investment proposal. Such a record will show either the relevant quantitative data point, or confirmation that the data is not reasonably available, or our conclusion that the metric is not relevant to the proposed investment.

Principal adverse impacts – investment phase:

1.7 Having completed the diligence assessment, the relevant investment professional is then required, when evaluating the merits of a proposed investment, to determine the extent to which the results of the diligence exercise should weigh on our investment decision, taking into account our sustainability values as articulated below.

1.8 The Firm’s policy is to allow the relevant investment professional to exercise their subjective judgment as to whether and how the results of the diligence process impact on the investment decision, as against the Firm’s sustainability values:

- **Environmental:** We generally aspire to invest in investment positions which have as little an adverse impact as possible on environmental sustainability, as measured by carbon emissions, carbon footprint, use of non-renewable and renewable energy, and energy consumption intensity.
- **Social:** We generally aspire to invest in investment positions which meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption, as measured by reference to the UN Global Compact.
- **Governance:** We generally aspire to invest in investment positions with counterparties that can demonstrate robust governance structures.

1.9 The relevant investment professional is required to subjectively assess, using their reasonable judgment, if the proposed investment does have significant adverse impact, in light of those sustainability values.

- If the conclusion is that there is no significant adverse impact, then that shall be recorded in the investment proposal.
- If the conclusion is that there is a risk of significant adverse impact, then the investment professional is further required to determine what the consequences of that shall be for our investment decision. In making this decision, the relevant investment professional shall generally prioritise mitigating adverse impact according to the order in which the identifiers appear in section 1.5 above. In other words, the Firm will (for example) prioritise mitigating carbon emissions over mitigating energy consumption intensity.
- The relevant investment professional shall have complete discretion as to what decision to take, and these steps may include the following mitigating actions (amongst other things):
 - (i) Making a decision not to invest in the proposed investment.
 - (ii) Making a decision to invest, but with a limited position size.

- (iii) Making a decision to invest, but with an intention to engage with the management of the issuer to improve their business from a sustainability perspective.
- (iv) Making a decision to invest, but with an intention to make offsetting investments to balance or hedge the adverse impact being done through this investment.

The investment professional shall be required to record their decision on what mitigating actions, if any, are appropriate to take.

2. **Description of the principal adverse impacts and action taken or planned**

- 2.1 SFDR requires the Firm to disclose in this document information on the principal adverse impacts which have been encountered by the Firm, and a description of the action which we have taken (or plan to take) in respect of those identified impacts. The Firm understands that this is an *ex-post* (or retrospective) report on actions taken in practice by the Firm to implement the PAI Policy.
- 2.2 The Firm will report on these matters on a calendar year basis, with the first report due in respect of 10 March 2021 to 31 December 2021. The Firm proposes to publish that report during H1 of 2022.

3. **Summaries of shareholder engagement policies**

- 3.1 SFDR requires the Firm to provide a brief summary of our engagement policy under Article 3g of the revised Shareholder Rights Directive (“SRD II”). However, the Firm is not subject to the SRD II because it does not hold equity investments.

4. **Adherence to responsible business codes and international standards**

- 4.1 SFDR requires the Firm to cross-refer to our adherence to responsible business codes and internationally recognised standards for due diligence and reporting. For these purposes, the Firm refers to its adherence to the following codes and standards:
 - the United Nations Principles for Responsible Investment; and
 - the Standards Board for Alternative Investments.
- 4.2 SFDR requires the Firm to disclose the degree of our alignment with the objectives of the 2016 Paris Agreement adopted under the United Nations Framework Convention on Climate Change, which seeks to strengthen the response to climate change by, inter alia, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development (the “**Paris Agreement**”). The Firm has taken steps to align its business to the objectives of the Paris Agreement as follows:
 - the Firm endeavours to monitor and reduce its carbon footprint and aims to monitor the carbon footprint of key counterparties, where data is available;
 - the Firm has reviewed and is supportive of the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD), which can be found at <https://www.fsb-tcfd.org/recommendations/>, and is actively researching methods to evaluate and understand the potential impact of climate change on our investment products; and
 - the Firm is supportive of industry initiatives to understand the potential impact of climate change on individuals and physical exposures, in order to ensure the continued availability of sustainable insurance products and reducing the protection gap.