

ESG POLICY

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1. **Introduction**

1.1 Leadenhall Capital Partners LLP and its subsidiary undertakings from time to time (together, the “**Firm**”) firmly believe that adopting sustainability and ESG principles will lead to better underwriting results and higher investment returns over the long term. As one of the largest ILS managers, the Firm is of the view that it has a responsibility to lead on engagement with its counterparties on the sustainability of the investments that it makes on behalf of its clients and on environmental, social and governance issues generally.

1.2 This document sets out the Firm’s policies on the integration of sustainability in our investment decision-making process. It also sets out the Firm’s investment assessment practices in respect of sustainability risks. The policy applies to all investment professionals of the Firm, and applies in respect of all investment advisory and management services carried on by the Firm.

1.3 The EU Sustainable Finance Disclosure Regulation (“**SFDR**”) requires the Firm to formalise how sustainability is integrated into our business and processes, and to make new public and client-facing disclosures on sustainability matters.

1.4 In overview, the Firm’s sustainability values are:

Integration	We incorporate sustainability issues into investment analysis and decision-making processes, which should result in better investment decisions.
Stewardship	We maintain an active dialogue with our portfolio companies on ESG matters and incorporate sustainability considerations into our engagement policies and practices.
Disclosure	We seek, encourage and promote appropriate disclosure on sustainability issues from the entities in which we invest.
Best Practice	We promote acceptance and implementation of responsible investment within the investment industry.
Collaboration	We work together to enhance our effectiveness in implementing responsible investment.
Communication	We report to our internal and external stakeholders on our activities and how such activities implement this ESG Policy.

1.5 The Firm became a signatory to the UN Principles for Responsible Investment (“**UN PRI**”) in 2018, and through this is committed to following the set of investment principles that incorporate ESG considerations into investment practice. An annual report is made to the UN PRI organisation on the integration of sustainability commitments within the Firm’s investment practices.

1.6 The Firm’s ultimate parent (the MS&AD Group) is also a signatory to the UN PRI. For more information on the UN PRI see www.unpri.org. For the MS&AD Group’s ‘Business Activities with Consideration for Sustainability’ press release, see:

https://www.ms-ad-hd.com/en/news/news_topics/news_topics20200930.html

1.7 The Firm is also a signatory to the Standards Board for Alternative Investments (“**SBAI**”), a standard-setting body for the alternative investment industry. The Firm makes regular disclosures to the SBAI confirming our adherence to the SBAI’s standards for alternative investments.

- 1.8 For reference, sustainability is also embedded in certain other policies and documentation maintained by the Firm that are of general application, including the Remuneration Policy.
- 1.9 This policy applies as from 1 December 2022 and replaces the Sustainability Risks (ESG) Policy and the Principal Adverse Impacts - Investment Due Diligence Policy. In light of the ever-evolving landscape of ESG, this policy will be regularly reviewed to ensure that the Firm's practices remain innovative and effective and that they continue to comply with the applicable developing regulatory landscape. In any event, the policy will, as a matter of course, be annually reviewed.
2. **Purpose of this policy**
- 2.1 Under SFDR, “**sustainability risk**” means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.
- 2.2 This policy therefore approaches sustainability risk from the perspective of the risk that sustainability events might cause a material negative impact on the value of our clients' investments. References in this policy to “**clients**” shall be construed as meaning the Firm's separate account clients and the funds that the Firm manages.
- 2.3 The Firm recognises that the world faces growing environmental, social, and governance-related risks. A key part of our role as a fiduciary is to act in the best interests of our clients, and this includes appropriately taking account of how those sustainability risks could impact on our clients' investments. This policy therefore establishes our framework to identify, measure, manage and monitor sustainability risks relevant to our clients.
- 2.4 SFDR is not specifically concerned with the risks that sustainability events may cause to the Firm's own balance sheet or prudential position. Such risks are separately covered by the Firm's ICARA process and/or enterprise risk management.
3. **Governance and senior management responsibility**
- 3.1 The Firm's Chief Executive Officer (advised and supported by the Firm's Responsible Investing (ESG) Committee) is ultimately responsible for the Firm's policies and procedures in respect of sustainability. This policy is shared with the Firm's senior management for noting. The Firm's Chief Executive makes periodic reports to the Firm's Board on sustainability matters.
- 3.2 The Firm's Chairman and Chief Executive Officer have approved this policy and the related procedures, including the Firm's sustainability risk appetite, and the Firm's integration of sustainability risks into investment decision making.
4. **Sustainability risk management**
- 4.1 As part of our broader risk management processes when investing, the Firm has implemented procedures to (i) **identify**, (ii) **measure**, (iii) **manage** and (iv) **monitor** sustainability risks.
- 4.2 The Firm's approach to sustainability risk management is based on (amongst other things) the nature of each transaction and the time horizon it encompasses. For example, multi-year ILS transactions are reviewed upon the occurrence of any material events. Risk transfer transactions are continuously monitored for the impacts of natural perils or changes in human morbidity or mortality and the risk measures are adapted with the influence of climate and social changes.
- (i) **Identify**
- 4.3 The Firm has separately reviewed the sustainability risks which are potentially likely to cause a material negative impact on the value of our clients' investments, should those risks occur. These are broadly divided into the three categories of environmental, social and governance risks.

4.4 The Firm treats sustainability risk as both a standalone risk, and also a cross-cutting risk which manifests through many other established principal risk types (such as financial risks, operational risks, credit risks, etc).

(ii) Measure

4.5 The Firm measures sustainability risk through its assessment of investments and portfolio companies. This assessment includes examining investment and portfolio companies in the context of our sustainability criteria, with a particular focus on governance metrics and more generally on social impacts. In addition, we assess the impact of climate risk on client investments exposed to meteorological risk to derive a risk curve for each investment.

4.6 In formulating our view on sustainability risk, we rely on our own internal analysis, modelling and assessment. We also use third party data sources (e.g. Bloomberg) where available. For modelling physical risk we use third party vendors as well as obtain data sources from portfolio companies and intermediaries.

4.7 In measuring sustainability risk, we take account of the “physical” or tangible risks of a sustainability event (for example, the impact of severe climate events leading to business disruption or losses for our investment positions). In addition, we also take account of the “transition” risk, which focuses on the risk to investments as the world moves towards a more sustainable environmental and social model, for example, the risk severity from meteorological events on renewable energy sources like solar panels and wind farms.

(iii) Management

4.8 While the Firm’s portfolio managers and analysts are provided with information on sustainability risks, and are encouraged to take sustainability risks into account when making an investment decision, sustainability risk would not by itself prevent the Firm from making any investment. Instead, sustainability risk forms part of the overall risk management processes, and is one of many risks which may, depending on the specific investment opportunity, be relevant to a determination of risk.

4.9 The Firm excludes debt or equity investments with exposures to counterparties whose primary business is a direct involvement in:

- the manufacturing controversial weapons, to protect human rights;
- the manufacturing controversial arms/armament, to protect human rights;
- pornography, to promote respect for human rights;
- tobacco, to promote social cohesion through good health; and
- gambling, to promote social cohesion and to protect economically or socially disadvantaged communities.

4.10 The Firm’s lines of defence are senior management, portfolio managers/analysts and its Responsible Investing (ESG) Committee; all have active roles in managing sustainability risk.

(iv) Monitoring

4.11 The Firm’s portfolio managers and analysts, with the input of the Firm’s Responsible Investing (ESG) Committee, conduct periodic review and periodic monitoring of investments and portfolio companies. The Firm continuously monitors and takes into account applicable legislation and regulation.

(iv) **Training**

4.12 The Firm's is committed to providing ongoing training to its partners and staff on ESG matters (including Diversity & Inclusion), with such training generally taking place quarterly. That training may be provided internally or by third parties.

5. **Sustainability Indicators, Principal Adverse Impacts and Binding Selection Criteria**

5.1 All of the financial products managed by the Firm are designed to satisfy the criteria set out in Article 8 SFDR.

5.2 A description of the manner in which sustainability risks are integrated into our investment decisions is set out in the pre-contractual disclosures. For these purposes, "pre-contractual disclosures" means the prospectus or offering document for a financial product.

5.3 Products managed by the Firm promote environmental and social characteristics, but do not commit to making any sustainable investments. They do not consider principal adverse impacts on sustainability factors. The Firm does not currently consider the adverse impacts of investment decisions on sustainability factors within the meaning of SFDR. This is because the detailed rules underlying the SFDR require The Firm to ascertain the availability of the data expected to be reported under the requirements of SFDR and The Firm is of the view that the required data is not currently available. The position will continue to be monitored and reviewed by the Firm as data becomes available and market practice becomes apparent.

5.4 The pre-contractual disclosures describe the environmental and/or social characteristics promoted by the financial products and the sustainability indicators that are used to measure the attainment of such characteristics. They also set out the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by the relevant product (the "**Binding Selection Criteria**"). The products' investments will not formally align with the EU Taxonomy Regulation.

5.5 The annual reports produced on or after 1 January 2023 for financial products managed by the Firm shall include reporting against the Binding Selecting Criteria in accordance with applicable standards.

6. **ESG Assessment**

6.1 The Firm's investment professionals must apply the steps set out below, whenever they are making any investment decision.

Pre-investment assessment

6.2 Prior to making any investment decision, our investment professionals (referred to below as the "**relevant investment professional**") are required to conduct an assessment of the proposed investment position. This assessment will evaluate a variety of factors using available data.

6.3 The assessment conducted and the metrics and data used by the relevant investment professional will depend on the nature of the relevant investment, in particular there will be a difference between public and private investments and between direct investments and investments in structured products or where there is an intermediary interposed between the Firm's clients and the transaction sponsor. A summary of the approaches taken appears below:

- For private or direct investments (e.g. bilateral note issues) ("**Direct Investments**"), there is a high level of interaction with the issuer/sponsor and consequently an opportunity to collect granular data and to make enquiries of the issuer/sponsor. For Direct Investments, the relevant investment professional will complete a checklist covering governmental factors (e.g. whether the issuer is subject to prudential regulation, any outstanding litigation), environmental factors (e.g. energy efficiency strategy, pollution exposures) and social factors (e.g. diversity, corporate volunteering, human capital management). For each of those categories, the issuer is allocated a

qualitative score (positive, neutral or negative).

- For indirect investments and investments in structured products (e.g. securitisations, non-life insurance-linked transactions, cat bonds) (“**Indirect Investments**”), there is a lower level of interaction with the issuer/ sponsor than for Direct Investments. Consequently, it is necessary to rely to a large extent on high level criteria (e.g. country of risk, business type, sponsor, ownership structure, type of insurance risk), publicly available data and data produced by third parties (e.g. brokers, credit ratings). The counterparty is allocated a RAG rating for governance factors.

6.4 Having completed the pre-investment assessment, the scores are recorded in the investment proposal:

- For Direct Investments, an ESG section is included in the relevant investment proposal. This section includes the ESG scores and a commentary on whether the proposed investment would satisfy the Binding Selection Criteria applicable to the participating financial products.
- For Indirect Investments, the governance rating is included in the relevant investment proposal, together with a commentary regarding whether the proposed Indirect Investment would satisfy the Binding Selection Criteria applicable to the participating financial products.

It is generally expected that (a) any Indirect Investment awarded a “red” rating for governance as part of the pre-investment assessment will not be approved for investment and (b) no Direct Investment or Indirect Investment will be allocated to a mandate that would result in a breach of the Binding Selection Criteria applicable thereto.

6.5 Given the complexity and bespoke nature of many of the Firm’s transactions, the Firm will ensure that the counterparties identified and subject to assessment can be reasonably regarded as having substantive financial interest in such transactions. For example, when a cat bond is issued, the Firm would treat the sponsor of the cat bond as the counterparty for this purpose. Conversely, where a reinsurer relationship exists and the other entity retains risk in the transaction, it would be treated as the counterparty.

Stewardship and ongoing monitoring of portfolio investments

6.6 The Firm maintains an active dialogue with portfolio companies and/or their brokers on ESG matters. It endeavours to assess the social resilience and governance frameworks of its portfolio companies and promotes the importance of them collating, understanding and sharing this data, where they do not already do so.

6.7 Ongoing ESG assessment of portfolio investments is undertaken. This takes place as part of the Firm’s monitoring programme. For Direct Investments, such monitoring occurs as a desktop exercise utilising the results of the reporting received in relation to portfolio investments and as part of periodic visits (which may include site visits). Given the relatively short tenor of many Indirect Investments, monitoring in relation to such investments tends to occur as part of a refresh of the assessment of the issuer at the start of each risk period.

7. Disclosure of this policy

7.1 SFDR requires that the Firm must publish on our website information about this policy. The Firm satisfies this requirement by disclosing the policy itself on our website.

7.2 SFDR also requires that the Firm must include, in the pre-contractual disclosures for our financial products, a description of the manner in which sustainability risks are integrated into our investment decisions. The Firm satisfies this requirement by disclosing this information in pre-contractual disclosures. A summary of these pre-contractual disclosures is published on the Firm’s website.

7.3 SFDR further requires that, for any financial products which do not consider the principal adverse impacts on sustainability factors, an appropriate notice is disclosed (together with an explanation). The Firm satisfies this requirement by publishing a “No Adverse Impacts” Statement on its website.