Securis

ESG Investment Policy

September 2020

Confidential – Internal Policy Document

Purpose and Scope

The purpose of this policy is to define the approach taken by Securis Investment Partners LLP and its affiliates (collectively "Securis" or the "Firm") to integrating Environmental, Social, and Governance ("ESG") considerations into the opportunity analysis for non-life and life Insurance linked securities ("ILS") investments. Full details of how the ESG Investment Framework is conducted at Securis is included in the Securis ESG Investment Policy Framework.

ILS

Insurance products are designed to help individuals and society recover from disasters and to build resilience from catastrophic events. ILS instruments enable investors to access pure insurance risk through a fund product, in an asset class which inherently provides positive impacts for society. The ILS market was formed following major catastrophes in the early 1990s; Hurricane Andrew impacting Florida and the Northridge Earthquake in California. These events showed the level of damage possible when natural disasters occur in large population centres and tested the solvency of the market, with a number of insurance companies failing. Securis was founded in 2005 following a series of major hurricanes. The size of the ILS market has grown significantly in the last 15 years; this has broadened the capital base available for the insurance sector and increased its stability.

We believe the world is faced with a number of major challenges, where insurance will play a key role and responsible investment philosophies will become increasingly important. Climate change is expected to impact the natural and built environment, increasing the potential for losses and the demand for insurance. Population growth creates strains on infrastructure and society and increases exposure; we see insurance as key pillar in supporting sustainable growth. Trends for longevity have altered the demographics of society, stressing balance sheets and healthcare systems, with a growing need for capital and de-risking solutions. COVID-19 has highlighted some of the largest and broad-ranging problems facing society today and the gaps in insurance coverage. We believe insurance-based solutions can form a material part of improving resilience for future pandemic occurrences.

Insurance operates on the basis of quantifying risks and charging a fair and sustainable premium. Risk-based pricing is key to influencing risk management behaviour; intrinsically rewarding risk avoidance or mitigation while penalising irresponsible practices.

In both the non-life and life ILS space, we seek innovative solutions for structuring risk transfer products, sourcing demand from counterparties and pricing risk on behalf our investors. Non-life insurance enables individuals and businesses to repair or rebuild properties following catastrophes. The majority of the non-life risks undertaken collect an insurance premium against the risk of loss from physical damage to property resulting from natural disasters such as hurricane, earthquake, flood and wildfire. Life and health insurance products provide financial relief to individuals and families, in circumstances of illness, unemployment or death. Life ILS investments help life companies engage in risk transfer or provide capital to finance business growth, increasing the availability of products for policyholders.

Policy

We believe it is important to recognise the Environmental, Social, and Governance related risks to our investments and the impact our investments may have on the world. Securis considers ESG sustainability criteria as part of the investment decision making process, however does not manage specific ESG Funds. ESG considerations for investments are naturally well aligned with our underwriting process and our investment goals. Securis has developed a bespoke framework to score the ESG aspects of each investment as part of the analysis and due diligence process; the scores will be assessed on a consistent deal by deal basis within the Investment Committee. A low score in any or all of the elements does not preclude making an investment but serves as a framework to inform the decision making. Reporting and oversight will be performed by the Operational Governance Committee, Firm Board and Fund Board.

As a provider of ILS solutions, the vast majority of the underlying policies are covering properties which are residential, small to medium commercial buildings, or linked to the lives of individuals. As such, a negligible proportion of our investments have exposure to those classes typically considered as harmful to society or the environment and with associated reputational risks for our investors. A material part of the non-life portfolio is invested in retrocession (reinsurance of reinsurance business) contracts with limited "look through" to the underlying policyholder level, clear exclusions are difficult to enforce or monitor with these limitations in transparency reflected within our ESG scores.

Environmental

The climate is changing; global temperatures have increased in the post-industrial era. A key concern is whether ILS products are insuring classes of business that are contributing to carbon emissions; the significant majority of insured exposures have no direct impact on the environment as policies are covering lives or properties. However, within our score we recognise potential exposure to industries with a large carbon footprint.

Much of the non-life portfolio is exposed to climate-related risks and specifically to extreme weather events. Rises in sea levels have already been observed and are expected to continue; this may increase the propensity of flooding events, particularly from hurricane-induced storm surge events. Rising sea surface temperatures can be a factor in fuelling hurricane energy, increasing the intensity of storms, and higher levels of humidity may increase precipitation levels causing flooding. Wildfire risk is also exacerbated by higher temperatures, with longer and more severe dry seasons increasing the potential for wildfire propagation.

The ILS market and wider property catastrophe re/insurance industry sector is uniquely positioned to quantify the risk with sophisticated approaches to scenario modelling and stress testing. As conditions change, Securis is continuously updating the modelling framework and pricing analysis to reflect our current view of risk. Private reinsurance contracts are typically renewed annually which enables re-evaluation of both the modelling and pricing. The environmental score will assess the extent to which an investment is exposed to risks affected by climate change.

Social

Access to affordable insurance is fundamental to a well-functioning economy and the infrastructure of society. A number of recent natural catastrophes have highlighted the insurance penetration gap, both in developed economies and in less well-developed parts of the world. Adequate provision of insurance has a significant impact on the rate of recovery following a disaster and the ability to re-build stronger. Securis' focus is naturally on more developed insurance markets, however there are increasingly investments targeted at tackling under-insurance, examples of which are:

- Flood insurance coverage in the US is low; roughly 70% of the economic losses following Hurricane Harvey in 2017 were uninsured. The National Flood Insurance Program (NFIP) provides government subsidised flood insurance to those homeowners and small business unable to purchase it affordably or at all. By providing reinsurance capacity to NFIP, it ensures the program can pay claims to policyholders for catastrophe events and enables its long-term, sustainable operation.
- Mexico is prone to natural disasters. In 1996, FONDEN was created which is a government fund for disaster relief and reconstruction. In 2009 FONDEN issued a multi-peril multi- region cat bond using the World Bank's MultiCat Program; this allows Mexico to transfer a pool of disaster risk to the capital markets. Our investments in the MultiCat Mexico catastrophe bonds provide capacity to insure against Hurricanes and Earthquakes, enabling the Mexican government to develop resilient disaster plans and ensure funds are available for effective recovery.

The life business supports Life and Health insurance companies with their capital and financing requirements. Our life investments include structuring effective capital markets solutions to help the global pension system with its huge derisking challenges. In a world facing a significant life and health insurance protection gap, we play a key role in supporting small and medium size insurance companies in their growth process, to help them provide their products to more policyholders. Securis is also working closely with the World Bank and African Risk Capacity on capital markets transactions in developing countries aimed to help mitigate their material social and health challenges.

For the social score, we consider how the proceeds are being used and the consequences for society, whether the investment helps society build resilience, and whether it is tackling the challenges of under-insurance.

Governance

The governance of an investment contract determines the coverage, exclusions and trigger levels, as well as defining funding and collateral release terms. The robustness of a contract can be impactful on overall investment performance, particularly when faced with unanticipated types of events. Contract review is a key component of our investment process and as an investor in multiple types of ILS instruments, we see variations in the quality of contract wording. We believe clearly defined and transparent contracts play an important role in increasing the efficiency of insurance coverage for both investors and for cedants, while also avoiding disputes and consequential delays. Our score will assess the quality of the contract, including the clarity around covered risks.

The governance of a counterparty can also be meaningful for the long-term performance of an investment. A cedant or counterparty with high standards of operations and management is typically expected to outperform, however we would look opportunistically for investments with distressed counterparties where the price is appropriately reflecting the additional risks. The score will assess corporate governance, regulation, rating agency outlook as well as accounting, auditing and compliance standards. Through engaging on these aspects, we encourage our counterparties to act with higher standards of governance.

Principles

Securis became a signatory to the United Nations Principles for Responsible Investment (UN PRI) in September 2017. The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of ESG issues to investment practices.

In signing the Principles, we as investors publicly commit to adopt and implement them and believe this will better align our investment activities with the broader interests of society. Therefore, where consistent with our fiduciary responsibilities and relevant for the strategy, we commit to the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.