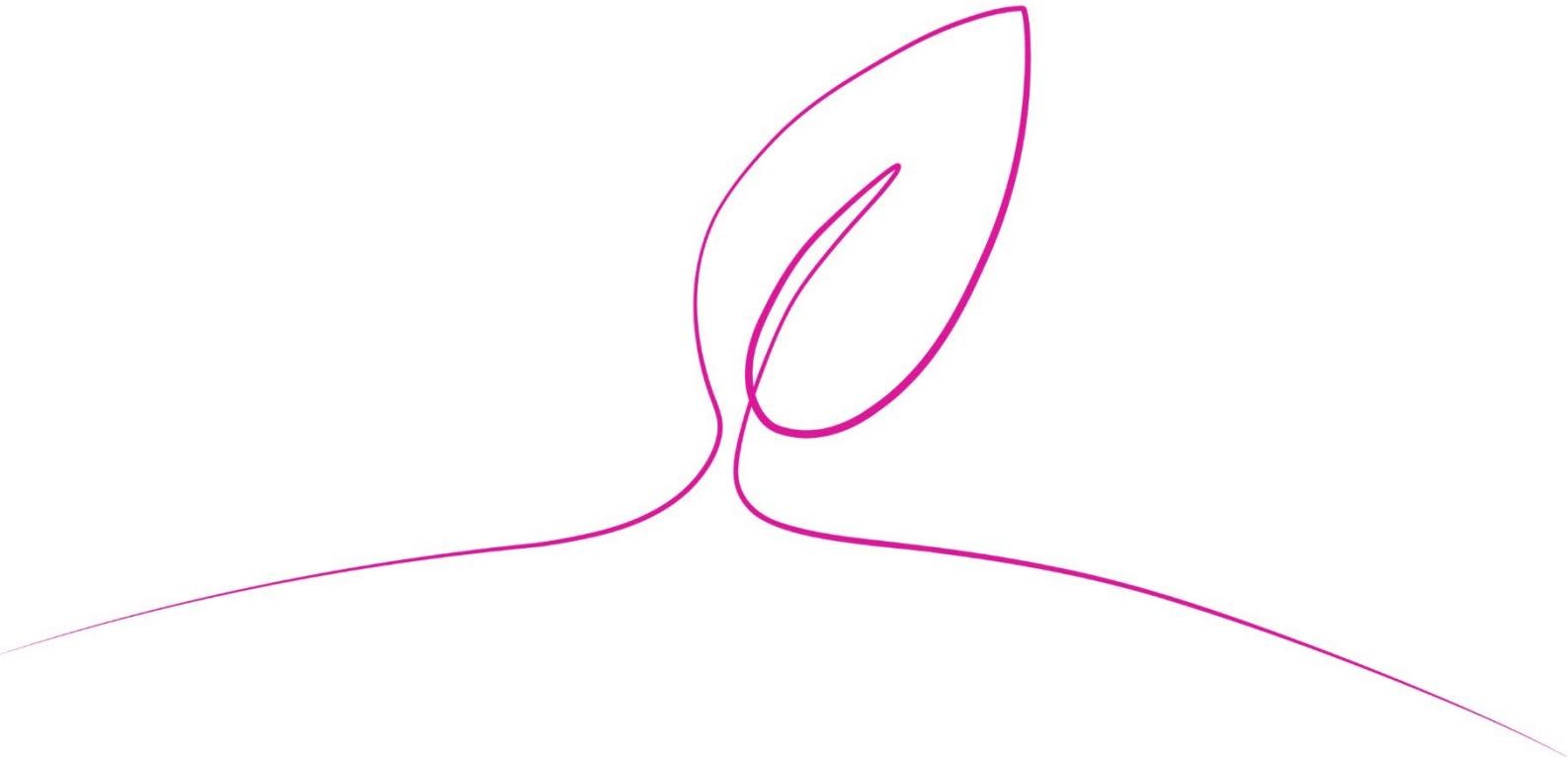


# Beazley Responsible Investment Policy

March 2022



# Responsible Investment Policy

## Introduction

Active consideration of environmental, social and governance (ESG) risks is an important element of Beazley's ability to deliver strong long-term investment performance. We believe that demonstrating a clear commitment to sustainable business practices is not only the right thing to do by our clients, investors and employees, but that companies that do this successfully enjoy competitive advantage over time with strong and more stable returns. This approach is reflected in our investment process for internally managed funds where ESG ratings have been incorporated into our analysis over several years.

As expectations from regulators, shareholders and clients for companies to clarify their ESG positions have increased, we have responded by strengthening our ESG criteria and reporting.

The purpose of our responsible investment policy is to set out how we incorporate ESG issues into our investment analysis and decision-making process and how we propose to report on our progress towards reducing the carbon intensity of our assets. All investment assets fall within scope of this policy.

The rapidly developing background to responsible investment means that our detailed plans are likely to continue to change and develop quickly. Updates to our approach will be amended in the policy via our annual review process. The policy also forms part of Beazley's Responsible Business strategy, which is explained in more detail [here](#).

The policy covers the following areas:

- Our approach to ESG integration and how we incorporate this assessment into the management of our internally managed portfolios
- How we apply our ESG standards in the evaluation of outsourced assets
- UN Principles of Responsible Investment
- Our approach to active ownership
- Incorporation of science-based targets and measurement of climate change risk.
- Impact investments

The majority of our assets are managed directly by Beazley's in-house investment team, which invests our portfolios in accordance with the ESG standards set out in this policy document. For those assets that are outsourced, we look to appoint investment managers that demonstrate an approach that is consistent with our responsible investment policy. Approval of external managers is subject to meeting our standards, recognising that our conclusion will be subjective to an extent and dependent on what alternative solutions are available. Because for some asset classes there is limited scope to incorporate consideration of ESG risks within the investment process it is impractical to pursue ESG solutions for these parts of the portfolio, for example, hedge funds. However, the availability of ESG investment solutions is evolving rapidly and we will continue to monitor the development of alternative solutions with a view to achieving fuller coverage over time.

Responsibility for sustainability at Beazley lies with the Chief Executive Officer who has delegated implementation of this responsible investment policy to the Chief Investment Officer. The Beazley Investment Committee chaired by our Chief Financial Officer is responsible for overseeing investment activities.

## Definition

Our responsible investment strategy integrates ESG considerations into investment analysis and decision-making as well as ownership practices, in order to have a positive impact on the financial value of an investment. It also acknowledges the broader impact that investments strategies can have on the world around us.

### ESG integration

The Chief Investment Officer and investment team at Beazley are responsible for the management of our investment portfolio including directly managed fixed income portfolios and the selection of external third-party managers for all other asset classes. A consideration of ESG risks is embedded into the investment process and each team member is responsible for implementation.

Most of our assets are directly managed internally by the investment team and are invested in investment grade fixed income instruments. ESG ratings and research provided by a specialist supplier are integrated into our analysis to assess the degree to which enterprise value is at risk. A qualitative assessment is undertaken to determine the extent of exposure to ESG factors and the strength of the company in the management of these risks. A systematic approach is also applied in the form of explicit minimum standards that companies are required to meet to qualify for inclusion on our internal list of approved issuers, which is reviewed on a quarterly basis.

Specialist external managers are appointed to manage our other assets. We aim to have strong ESG measures in place across all asset classes where there is a comparable ESG alternative regarding liquidity, cost and the return profile. We recognise that due to the nature of some asset classes there is limited scope to incorporate ESG within some areas of the investment process, such as among hedge funds, and a lower ESG standard may need to be considered for these asset classes.

We share our responsible investment policy on an annual basis with all appointed managers who are asked to complete an ESG questionnaire to enable us to monitor changes in their approach. Our expectation is that their approach is consistent with the standards set out in this policy. Prospective managers are required to respond to a detailed ESG questionnaire included in our standard request for proposal (RFP) documentation during the manager selection process. An assessment is undertaken to evaluate whether the manager has sufficiently satisfied the requirements of our responsible investment policy acknowledging that their approach may not exactly match the standards set out in the policy, in which case a qualitative assessment will be made before appointment. Another course of action may be to engage with the manager to encourage a more rigorous approach if there are areas where we feel stronger measures could be implemented. Ongoing compliance with our requirements is incorporated into performance monitoring undertaken periodically throughout the year.

The percentage of funds under management where external managers are not deemed to manage assets in accordance with our responsible investment policy are declared in our annual Responsible Investment Report.

### Screening

We have clearly defined criteria with regard to the ESG standards with which our internally managed funds must comply. External managers are expected to meet our criteria or apply a similar standard where practical.

For internally managed funds, screening for compliance with our ESG standards is undertaken prior to inclusion on the approved list and through the life of the investment to ensure that the companies in which we invest remain in accordance with our ESG criteria. The standards that we screen against cover several different areas.

**Product involvement:** We avoid investing in companies involved in product areas that we consider to be incompatible with sustainable business practice. Therefore we do not invest in companies with product involvement in the following areas:

- Controversial weapons: tailor-made and essential, non-tailor made or non-essential; any revenue.
- Nuclear weapons: tailor-made and essential, non-tailor made or non-essential; any revenue.
- Tobacco products: production, related products or services, retail generating 5% or more of total revenue.
- Thermal coal: extraction, power generation, capacity generating 5% or more of total revenue.
- Oil sands: extraction and capacity generating revenue 5% or more of total revenue.

**Negative screening:** We avoid 'worst in class' companies by excluding issuers with the poorest ESG performance relative to industry peers, according to ratings advised by ESG ratings and research partner, Sustainalytics. Companies with ESG risk ratings in the bottom 10<sup>th</sup> percentile of their sub-industry peer group are excluded.

**Norms-based screening:** The companies in which we invest are screened to check compliance with international norms and standards covering various areas including human rights, the environment and anti-corruption. Any company assessed to be in violation is excluded from the Approved Issuer List.

**Sanctions:** Investment in sovereign bonds must comply with the Beazley Sanctions Policy.

### United Nations Principles of Responsible Investment (UN PRI)

Beazley became a signatory of the UN PRI in 2021 to publicly demonstrate a commitment to responsible investment through adoption of the principles and to contribute to a more sustainable global financial system. We will be making a first report submission in 2023 to demonstrate progress made against the principles.

### Active ownership

We believe it is important to use our influence as shareholders to encourage responsible business practices in the companies in which we invest. Equity investment is a small proportion of our portfolio and the management of these assets is outsourced to external investment managers. We require that they exercise our voting rights and engage with our investee companies with a view to achieving positive change with particular emphasis on ESG practices and the setting of time-bound science-based targets for a reduction of carbon.

### Incorporation of science-based targets and measurement of climate change risk

Measuring the carbon footprint of the portfolio is the first step on the path to understanding the environmental impact of the companies we invest in and to enable us to provide our stakeholders with the transparency they need for their own reporting. In 2021 for the first time, we published the carbon intensity of our corporate bond and equity assets in our Responsible Business Report. This number provides a measure of the exposure to carbon-intensive companies, expressed in tons CO<sub>2</sub>e / US\$m revenue and includes scope 1 and scope 2 emission data.

We understand that as the world transitions to more sustainable energy sources there will be a medium-term increase in demand for the carbon intensive products needed to facilitate this change. As a responsible investor we recognise the need to continue to provide capital support to businesses who may be high carbon emitters but that are committed to making the transition to a lower carbon world.

For this reason, it is our intention to set a clearly defined, time bound pathway to reduce greenhouse gas emissions to align with net zero by 2050. We have already incorporated a consideration of transition pathways as part of our internal credit process for internally managed funds and we will be engaging with our external managers to encourage them to implement science-based targets for carbon reduction. We will be monitoring our external managers progress and developing a plan for disinvestment where significant process is not evident from our annual ESG review process.

The disclosure of our transition plan and alignment with Task Force on Climate related Financial Disclosures (TCFD) recommendations is intended for later in 2022.

The science behind climate change is constantly evolving and we will continue to review and update our methodology accordingly including the development of more detailed 1.5°C scenarios driven by the Paris Agreement.

### Impact investing

As a responsible business, Beazley recognises the opportunity it has to use its investment assets to create a positive impact on the environment and society. To demonstrate commitment to doing the right thing we will be allocating US\$100m of our asset portfolio to impact investments. The projects that this capital will be used to fund will have a measurable social and environmental impact as well as a financial return and will focus on improving outcomes in places local to our offices and overseas in developing countries.

Whilst the amount allocated is relatively small as a proportion of our total portfolio, we believe this commitment will make a big impact to the enterprises we will invest in and the target impact. It is intended that we will make our first investment during 2022.

### Reporting

A responsible investment report will be produced on an annual basis to provide an update on progress against prior year objectives and to set out new goals for the year ahead. This update will be incorporated into the Responsible Business Report published on the Beazley website.

### Assurance

The group's assurance functions provide assurance over adherence to this policy as follows:

**Risk Management** – facilitate consideration of risks and risk mitigation, and reports the results of the sign-off against relevant controls and risk incidents to the group's governance committees and boards.

**Compliance** - The requirements of this policy are embedded within the investment management team's processes. The Compliance Monitoring team monitors the investment management team's adherence to relevant policies, including this one.

**Internal Audit** – Adherence to the requirements of this policy will form part of the Internal Audit team's risk based approach to coverage of the group and will be reviewed periodically.

### Review

This policy will be reviewed on an annual basis by the investment committee and the Beazley PLC board.

For more information visit [www.beazley.com](http://www.beazley.com)