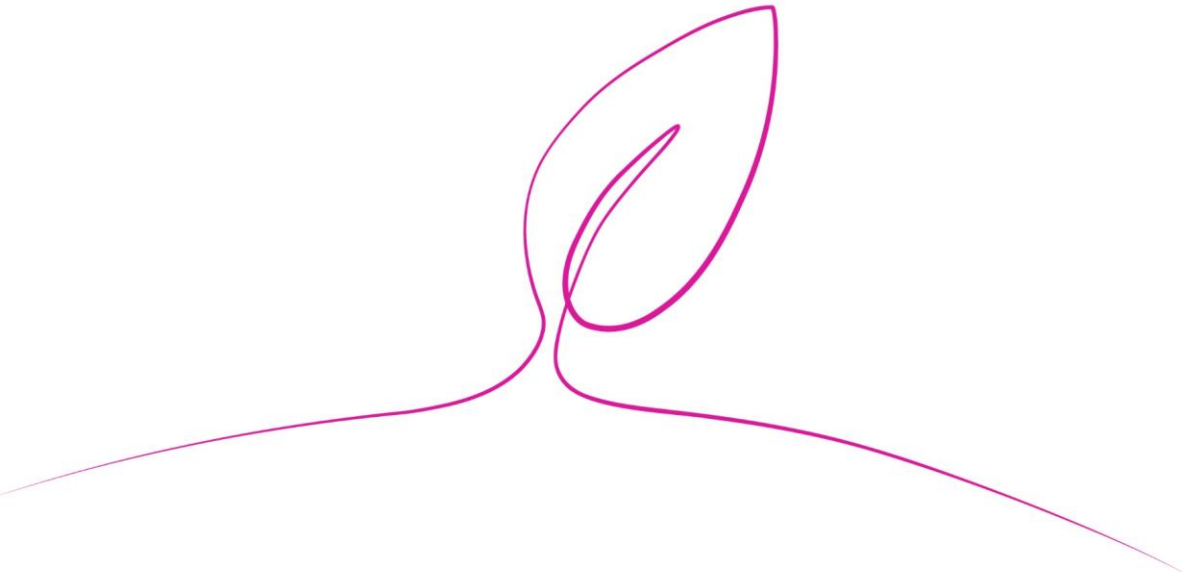


# Beazley Responsible Investment Policy

March 2024



**beazley**

## Responsible Investment Policy

### Introduction

Our vision at Beazley is to be the highest performing sustainable specialist insurer. To achieve this goal we have set a series of measurable and bold targets that incorporate ESG thinking into every aspect of our business. We know that we are on a journey and that it will take time to deliver but we are committed to building better resilience for our clients, staff, our communities, the environment and all our stakeholders.

Our Sustainability strategy is based around three areas of focus. Investments are an integral part of our approach to responsible business and this policy, and the actions outlined in our sustainability strategy, to be published later this year, contribute to Beazley managing our business responsibly, and delivering success through doing the right thing.

The metrics against which we measure our performance are regularly reviewed by our Executive Committee and Board. Beazley's Responsible Business Steering Group is responsible for challenging the progress and development of the strategy and providing support to the business as it addresses sustainability matters.

Supporting the transition to net zero is a key corporate goal for us. We have developed our first transition plan, which focuses on three key areas of underwriting, investments and operations. The plan will enable us to support the development of common transition plan frameworks for the insurance industry and align our scope 1 & 2 emissions with a SBTi pathway.

### Responsible Investment

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. Integrating a responsible investment approach into our strategy involves considering ESG factors alongside financial considerations, aligning investment decisions with broader sustainability goals, and actively engaging with companies to drive positive change. We believe that our approach is consistent with our fiduciary responsibilities; by aligning our financial objectives with broader sustainability goals, we can create value, manage risk and contribute to positive societal and environmental outcomes.

### Governance

Beazley has a robust governance framework, which helps the Board contribute effectively to the Company's long-term strategy and ensures that Beazley operates with the highest standards of integrity and accountability. We believe in the importance of good corporate governance and report under the UK Corporate Governance Code 2018 (the Code). Our Governance Report is available [here](#)

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. In 2023, a new role of Head of Responsible Investment was created in response to the growing importance of sustainability at Beazley and to oversee implementation of responsible investment practices across the portfolios.

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.



## Responsible Investment Approach

### Background

The purpose of our responsible investment policy is to set out how we consider ESG risks and opportunities in our investment analysis and decision-making process, our approach to stewardship and our goals to decarbonise the portfolio to align with our net zero commitment.

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:

- Scope
- Management of ESG
- Screening
- Sovereign Bonds
- UN Principles of Responsible Investment
- Active ownership
- Transition to net zero
- Climate risk measurement framework
- Biodiversity
- Impact investments
- Reporting
- Assurance

### Scope

Our aim is for this policy to be implemented across all asset classes held by Beazley. The principles in the policy are more challenging for some asset classes such as hedge funds where different methodologies or considerations apply and we recognise that over the near-term, coverage of the policy will not meet 100% of assets under management. Assets that are currently in scope include publicly listed corporate bonds and equities, sovereigns, and impact funds and collectively they represented c85% of our assets under management at 2023 year-end.

Beazley's in-house investment team manage the investment grade bond portfolios that are comprised of sovereign and corporate bonds. These are invested in accordance with the responsible investment principles 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 and where possible are signatories of the UN PRI.

For asset classes where there is limited scope to incorporate a consideration of ESG risks we are engaging with managers to support the evolution of alternative 'responsible' products. The availability of ESG investment solutions is evolving rapidly and we will continue to monitor the development of potential solutions with a view to achieving fuller coverage over time.

### Management of ESG risk

Our approach the management of market risk, those risks transmitted through financial markets and economies that affect broad market returns, does not differentiate between ESG risks and other market factors. Market risk is managed through asset/liability management, diversification across asset classes and value at risk monitoring incorporating scenario analysis. Systematic sustainability issues are influenced through our responsible investment approach including our stewardship activities and investment in impact funds that have measurable positive social and environmental outcomes. Directing our capital towards companies and projects that are actively working to address sustainability challenges helps to drive positive change and reduce systematic sustainability issues.

At a security level, we manage risks arising from ESG factors by integrating a range of assessment tools. The majority of our assets are directly managed internally by the Beazley investment team and are invested in investment grade fixed income instruments. We integrate ESG ratings and research provided

by a specialist supplier 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 solution regarding liquidity, cost and 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 they may not meet our internal ESG standards.

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 regarding 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
- 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
- Arctic oil and gas; exploration and extraction 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. We consider 'poor performers' to be those that have ESG risk rankings in the bottom 10<sup>th</sup> percentile of their sub-industry peer group according to two of our ESG ratings and research suppliers. Where there is a difference of opinion between rating agencies such that a company is in the bottom 10<sup>th</sup> percentile from only one agency, the company will be put on our maintain list of approved issuers and we will add no further exposure unless there is further change to relative positioning within the sub-industry peer group. In the event that a company falls into the bottom 10<sup>th</sup> percentile of two agencies, we will disinvest our exposures over a period of 3 months.

**Norms-based screening:** The companies in which we invest are screened to check compliance with internationally recognised norms and standards that set out principles and guidelines for promoting responsible and sustainable business practices, human rights protection, environmental stewardship and ethical conduct. Excluding companies that participate in behaviours that violate these standards helps to safeguard our portfolio by ensuring that we do not make investments that support or benefit from harmful practices.

We use the opinion of a specialist third party ESG ratings and research provider as to whether a company is violating, or is at risk of violating, a principle (or Principles) of the United Nations Global Compact (UNGC). The assessment also includes related complementary standards - such as the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD MNE Guidelines) and the United Nations Guiding Principles on Business and Human Rights (UNGPs), as well as their underlying international conventions and instruments

Our screening includes an assessment against the principles set out below:

1. Human rights: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence
2. Labour rights: Businesses should support and respect the freedom of association and effective recognition of the right to collective bargaining, eliminating all form of forced and compulsory labour, abolish child labor, and eliminate discrimination in respect of employment and occupation.
3. Environment: businesses should support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies.
4. Anti-corruption: Businesses should work against corruption in all its forms, including extortion and bribery.

Any company assessed to be in violation is excluded from the Approved Issuer List.

#### **Sovereign Bonds**

As an insurance company we are subject to strict regulatory requirements that restrict the composition of our investment portfolio. We are required to hold a certain proportion of our assets in highly rated and liquid investments to ensure we have sufficient capital and liquidity to fulfil our obligations to policy holders. This restriction leads us to have a significant exposure to sovereign bonds of the countries in which we operate, restricting our ability to apply ESG screening. For this reason, the only constraint on our sovereign bond exposures is that they 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 made our initial submission last year which remained confidential as it was our first year of reporting. Our report for 2024 will be publicly available.

#### **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.

For our fixed income portfolios, the size and nature of our investments are not of sufficient scale to allow us to effectively engage directly with our investee companies and we are exploring the options for outsourcing our stewardship to a third-party specialising in stakeholder engagement.

#### **Transition to net zero**

The transition to a net zero world is a crucial topic for Beazley, and affects our operations, investments and underwriting. We aim to publish the first version of transition plan, which will be a key part of our

strategic approach to ESG and climate-related matters in 2024. Our plan will set out a clearly defined, time bound pathway to reduce greenhouse gas emissions.

Measurement of the carbon footprint of the portfolio is the first step on the path to decarbonisation and public disclosure provides our stakeholders with the transparency they require for their decision making and measurement of climate risk. Since 2021 the weighted average carbon intensity (WACI) of our corporate bond and equity assets has been published annually on the Beazley website. 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. We continue to expand the scope of our reporting and in 2023, in addition to the WACI we also published the apportioned carbon and Paris Alignment of our portfolio of publicly listed equities and corporate bonds.

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. The most effective approach to achieve this goal is to incorporate science-based targets into our investment strategy.

A consideration of transition pathways is incorporated into the internal credit process for our internally managed investment grade fixed income funds. We are tracking the alignment of our investments with a net zero goal and over time, we will look to disinvest from those companies not making sufficient progress to decarbonise and who have an implied temperature rise that is inconsistent with our stated targets. It is our view that this approach is appropriate given the size and nature of our investments are not of sufficient scale to allow us to effectively engage directly with our investee companies.

The remaining funds under management are outsourced to third party investment managers and we will work with them to implement science-based targets for carbon reduction or to identify alternative funds that already adopt this approach.

#### **Climate Risk Measurement Framework**

We are developing a framework with which to measure and monitor transition and physical risk in the investment portfolio. This analysis will feed into a materiality assessment and be incorporated into our risk monitoring process via a climate risk appetite statement.

#### **Biodiversity**

There is increasing awareness of the role that biodiversity plays in maintaining the balance and stability of our ecosystems and building resistance to climate change. Investing in companies that prioritize biodiversity conservation can help reduce environmental degradation, protect endangered species and preserve natural resources. From a social perspective, loss of diversity can lead to economic losses from decreased livelihood opportunities for communities and a deterioration in health and cultural well-being.

This is an evolving area of focus, and we are starting to take steps to incorporate a consideration of biodiversity risks within our investment approach. It is our intention that when biodiversity metrics become more standardised and widely available, we will incorporate biodiversity into our ESG standards used to assess whether we consider an investment to be ESG compliant and this applies to both internally managed and outsourced investments. This year, for the first time our annual ESG questionnaire sent out to third party managers included additional questions around their approach to biodiversity to get an understanding of how widely this risk is being considered.

Our impact portfolio is invested in funds with a positive social and environmental outcome and as part of our due diligence process, we require that underlying projects have processes in place to protect biodiversity, particularly important for funds targeting a positive environmental outcome. This requirement has been formalised into our impact due diligence check list.

### 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 up to 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 significant impact to the enterprises we invest in, in addition to contributing to the development of the market. To date we have made a commitment to five investments in the fund. The progress of the portfolio and impact measurement will be reported internally to the Investment Committee and disclosed in the annual reporting.

### Reporting

A report on responsible investment activities will be produced on an annual basis to provide an update on progress and to set out new goals for the year ahead. This update will be incorporated into our annual reporting and published on the Beazley website.

### Assurance

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

**Risk Management** – Facilitates the review and challenge of all risks within our risk management framework, which includes ESG risk. The key outputs are reported to the group's governing 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.

### Governance

This policy applies to investment activities of all entities within the Beazley Group. It is owned by the Chief Investment Officer and is reviewed on an annual basis by the Investment Committee and approved by the Beazley PLC Board.

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

**Commented [LR1]:** This is the aim, but at present, we do not facilitate the attestation process of ESG/ investment transition controls as they are not documented within the system. Note that we plan to identify all ESG controls in H2 2024.