

Responsible Investment Strategy for the Lloyd's Central Fund

Lloyd's investment philosophy focuses on generating long-term, sustainable capital growth for Central Fund assets. Our approach to responsible investment is built upon three core pillars:

- **Protecting** Central Fund assets by considering environmental, social and governance risks
- **Providing** capital to support a sustainable future, through investments in green and social impact bonds and by excluding investments in coal focused companies
- **Promoting** responsible business practices in companies through activities such as corporate engagement and shareholder action

Protecting Central Fund assets

Lloyd's believes that environmental, social and corporate governance (ESG) factors can have a material impact on long-term investment returns.

We are therefore actively engaging with our existing external investment managers to understand how they assess these risk factors and to encourage better integration of these factors within their investment process where there is room for improvement. We consider various metrics relating to Responsible Investment as part of our framework for assessing the overall risk of existing managers on an ongoing basis. Likewise, when selecting a new investment manager, we consider any potential manager's approach to Responsible Investment and this feeds into our final selection decision.

We are also working to more effectively integrate consideration of ESG risk factors into our own investment process for the fixed interest assets we manage in-house, using ESG data from an external provider to assist us.

We track overall Central Fund exposure to sectors that we perceive as high risk, for example those most at risk from assets becoming stranded. We monitor individual holdings within high risk sectors and ensure we understand managers' rationales for investing in these areas.

Providing capital to support a sustainable future

Lloyd's believes that, as an asset owner, it is responsible for how its capital allocation decisions impact the environment and society.

We actively direct a portion of the Central Fund to impact investments. "These are investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return."¹ At the end of 2017, such investments accounted for approximately 3% of Central Fund assets and included green and social impact bonds. We will seek to expand our exposure to impact investments where we see opportunities that are linked to our value system.

Coal combustion is believed to be the largest single cause of global greenhouse gas emissions². We implemented a coal exclusion policy in April 2018. This is applicable to those Central Fund assets held directly in segregated portfolios.

Promoting responsible business practices

Lloyd's believes that responsible business practices are essential for a company to thrive over the long-term and are critical in building a sustainable economy and a healthy environment and society.

We therefore employ a specialist firm, and have done since 2008, to engage with companies in which Lloyd's Central Fund invests directly, and to exercise the Central Fund's voting rights in pursuit of environmental, social and governance goals.

In 2007 Lloyd's became one of the founding members of the ClimateWise Initiative; a collaborative endeavour by insurers to drive action on climate change. In each annual submission for Principle 4 of ClimateWise, we evidence the progress we've made in the past year, through our investment activities, in support of this initiative.

¹ Global Impact Investing Network

² <https://www.ecofys.com/en/press/quarter-of-global-greenhouse-gas-emissions-stems-from-coal-combustion/>