For professional financial advisers, pension scheme trustees, administrators and employers only.

JUST.

ESG PRINCIPLES FOR INVESTMENT

OUR INVESTMENT PORTFOLIO – SUSTAINABILITY AND ESG

October 2021

Environmental, Social & Governance (ESG) factors are a growing focus for Just Group and the management of our investment portfolio.

ESG is at the core of our investment due diligence, helping to ensure investments are sustainable and generate long-term competitive financial returns so we can meet the obligations of the policies we issue.

The management of our investment portfolio is one of the reasons Fitch have rated the insurer financial strength of Just Group as A+ (outlook stable confirmed April 2021). They said "The ratings continue to reflect our very strong assessment of Just's capitalisation and leverage, and asset-liability management." The IFS A+ rating indicates a strong capacity to meet policyholder obligations.

The duration of DB liabilities extends over many decades – therefore sustainability of the organisations in which we invest is critical as they'll need to stand the test of time. ESG is also strongly aligned with our social purpose: to help people achieve a better later life. In this case people are your members and our DB policyholders.

The £23bn+ portfolio consolidates the premiums from our defined benefit and individual annuity policyholders and some of this has been loaned to our lifetime mortgage customers. Last year (2020) we paid out over £1.3bn of retirement income. As well as paying policyholders, the returns generated also enable us to offer attractive bulk annuity pricing to the trustees of DB schemes.

Sustainability target

In August 2021 we made a commitment that our investment portfolio will be carbon net zero by 2050, and by 2030 we will have reduced our emissions on the portfolio by 50%. The most material impact we can make to reduce carbon emissions will be achieved through the decisions we take with our investment portfolio. We will be working closely with our network of investment managers to enable us to achieve our interim 2030 target and ultimate goal of net zero by 2050.

Applying the UN Principles for Responsible Investment (PRI)

As part of our commitment to responsible investment, we were the first UK insurance asset owner to sign up to the UN Principles for Responsible Investment (PRI). This publicly commits us to act in the best long-term interests of policyholders by incorporating the following principles to enhance returns and better manage risks:

- ESG issues are incorporated into our investment analysis and decision-making processes
- We are active owners and incorporate ESG issues into our ownership policies and practices
- We seek appropriate disclosure on ESG issues by the entities in which we invest including our outsourced asset managers
- We promote acceptance and implementation of these principles within the investment industry
- We work to enhance our effectiveness in implementing these principles and will report progress towards implementing these Principles.

FTSE4Good Index Series

We are delighted our progress to incorporate ESG into our investment due diligence has been recognised by satisfying the requirements to become a constituent of the FTSE4Good Index Series in December 2019.

ESG principles for investment

The index is designed to measure the performance of companies demonstrating strong ESG practices.

The ESG and sustainability factors we apply

To ensure investments align with the principle of ESG and are sustainable, they're assessed against four factors. We consider these factors to be an essential part of sound fundamental credit analysis.

1. Sustainability of the issuer

The duration of DB liabilities is relatively long-term. So we ask ourselves whether the company issuing the debt will still be around to repay us when that debt matures; which could be over 20 years. We take into account the industry sector in which the issuer operates, the track record and decision-making skills of their management, the level of competition, demand for their services or products and the regulatory environment.

Many leading high street brands have disappeared over the last decade. This emphasises the importance of ensuring we only invest in opportunities that can demonstrate longevity.

2. ESG considerations

We assess the investment against ESG criteria to ensure it aligns with our governance model. We wouldn't normally invest in any opportunity that had a long term, negative impact on the environment or society. For example, by the end of 2019 we'd reduced our exposure to tobacco to zero and we stopped investing in companies that focus primarily on oil and gas exploration and production and we reinvested in more ESG-oriented opportunities.

3. Climate change threats

The regulator and the broader market are increasingly demanding that institutional investors adopt the necessary actions to measure and manage the financial risk arising from climate change. The two main risks are:

- **Transition:** Risks and opportunities which arise from efforts to address environmental change, including shifts in consumer demand, investor sentiment, and disruptive business model innovation
- **Physical:** Risks and opportunities which arise from the impact of climatic events, such as extreme weather, or widespread changes in eco-system equilibria.

We employ a climate change database provider so we're able to quantify these risks and take appropriate investment decisions.

4. Brand impact

Will the investment negatively impact the brand image of our Group?

How has ESG shaped our annuity asset portfolio?

Our ESG credentials are evident in the significant investments we have already made in renewables such as offshore wind farms and by the exclusion of investments in tobacco, gambling[1] and the exploration for and production of oil and gas.

We utilise the expertise of specialist asset managers to support the business community via loans to small and medium-sized enterprises and provide microfinance in emerging markets via agriculturally dominated commodity trade finance.

On climate change, we have completed a stress test of our public rated bonds and the results were encouraging as the physical and transition risk impacts were limited. We are evaluating different potential data providers specifically focused on climate change that will help us manage investments at risk from climate change e.g. physical risks such as wildfires, flooding, heatwaves, transition risks and carbon emissions.

[1]the exception being a gambling complex on a Native American reserve which fulfills a social purpose.

Examples of investments influenced by our ESG and sustainability policy are shown below:

£250m wind farms	**£263m social housing**	**£121m[2] SME loans**	**£124m solar energy**	**£84m[2] commodity trade finance**	**£100m local authority loans**

IFRS valuations at 30 December 2020

Since 2017 some of the larger investments we've secured include a significant initial financing of close to £150 million for the Walney Extension Offshore Wind Farm which is located off the coast of Cumbria. It's up and running now and the turbines are generating renewable energy for almost 600,000 homes in the UK. All construction risk was passed to Orsted, a consortium of six Danish utility companies that own and operate the wind farm and is majority owned and guaranteed by the Danish government.

We liked the investment because it was inflation linked (and therefore a good match for pension liabilities) and achieved attractive spreads with limited credit risk as a proportion of our investment had recourse to the Danish government.

[2]market value at 30 June 2020. Other figures are for values invested.

ESG principles for investment

We invested over £100 million in financing the construction of the Hornsea Offshore Wind Farm in the southern North Sea off the coast of Yorkshire. This is also operated by Orsted so benefits from some of the same protections enjoyed by the Walney financing.

We invested close to £70 million in a loan to a Scottish social landlord. The funds enabled them to refinance existing debt and provide capital to build new social homes in Scotland.

We've also invested over £100m in loans to UK local authorities which are making essential services accessible to everyone. Examples include:

- building, purchase or lease of dwellings to help minimise homelessness
- to provide foster care for vulnerable children
- to provide school meals for children from lower income families
- to provide facilities and services related to artistic, cultural, sports, recreational and leisure and to maintain public libraries and museums.

We've taken private placements in leading universities including Cambridge and Harvard – counterparties that we believe will be around well into the future.

In making long-term investments there are always risks. We seek to manage these by looking at the security and protections offered and we ensure diversification.

When members know their pensions are funding such investments, this can drive engagement with their DB pensions. This is an area we hope more trustees are willing to explore when they invest in a buy-in.

Working with our asset managers

We run a partially outsourced model for our asset portfolio. ESG forms part of the ongoing and formal due diligence process we employ to assets the suitability of the assets we manage internally and through our asset managers.

Each new opportunity is assessed to ensure it aligns with the principles of ESG and sustainability outlined above and we veto those that don't meet the criteria.

Our asset managers can also provide ESG scorecards for private deals, including infrastructure transactions, as part of the due diligence process. This ensures we don't invest where issuers score poorly.

We also monitor historic holdings in our portfolio and will raise issues we uncover with the asset manager. When ESG and sustainability criteria are not met, cannot be evaluated or we simply have concerns then we'd normally divest.

Working with our borrowers

We are debt investors and therefore do not own any equity or hold voting rights. Engagement is still possible and there are a variety of factors that determine its effectiveness.

On private deals where we are the majority investor, we seek to encourage the issuer to consider ESG risks, especially where we perceive weaknesses and where reporting on ESG principles does not meet our standards, we engage with the issuer to encourage improvements.

On public bonds, we tend to engage through our asset managers who are usually also the equity investor and as such can drive big corporations towards the adoption of ESG friendly policies.

First UK insurer to issue green bond

In October 2020 we were the first UK insurer to issue a green bond. This £250 million offering, which was oversubscribed, aligns with the voluntary market standards of The Sustainability Bond Guidelines administered by International Capital Markets Association and inaugurates our recently established sustainability bond framework. This provides fixed income investors with an opportunity to support our vision to ensure that our investment portfolio has a positive impact on society and the environment.

FOR MORE INFORMATION

Call: **01737 827 381** Lines are open Monday to Friday, 8.30am to 5.30pm,
calls may be monitored for training and audit purposes and call charges may apply.

Email: **dbenquiries@wearejust.co.uk**

Visit our website for further information: **wearejust.co.uk/definedbenefit**

Please contact us if you would like this document in an alternative format.