RESPONSIBLE INVESTMENT POLICY

March 2024

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Introduction

This policy has been designed as a framework for the Isle of Man Treasury's preferred investment approach to Responsible Investment and covers Environmental, Social and Governance, Stewardship and Voting themes. It has been endorsed by the Investment Committee (the Committee) and approved by the Treasury Board. The Treasury Board delegates the responsibility for overseeing the management of the Treasury's external reserves to the Committee. The Committee are responsible for maintaining and monitoring the policy and liaising with the appointed Investment Adviser and Investment Managers to oversee its implementation and ongoing performance.

The Government is committed to addressing Environmental, Social and Governance (ESG) issues both specifically in terms of investment activities but also more widely through policy, such as the Isle of Man Climate Change Plan 2022-2027, which sets out deliverables across the six identifiable areas of greenhouse gas emissions across the Island.

The Climate Change Act 2021 set targets and standards to achieve "net zero by 2050". This Responsible Investment Policy compliments the Act in relation to environmentally sensitive investing, but also applies further additional important considerations in relation to social and governance issues to its investments. Investment decisions should align with the Isle of Man Government's purpose and vision, specifically when it comes to the inclusion of ESG factors in stock selection, to ensure the long-term sustainability of the portfolios.

The policy provides an overview of themes that will form part of responsible investment activities in addition to information on how this policy is implemented and commitment to reporting and accountability.

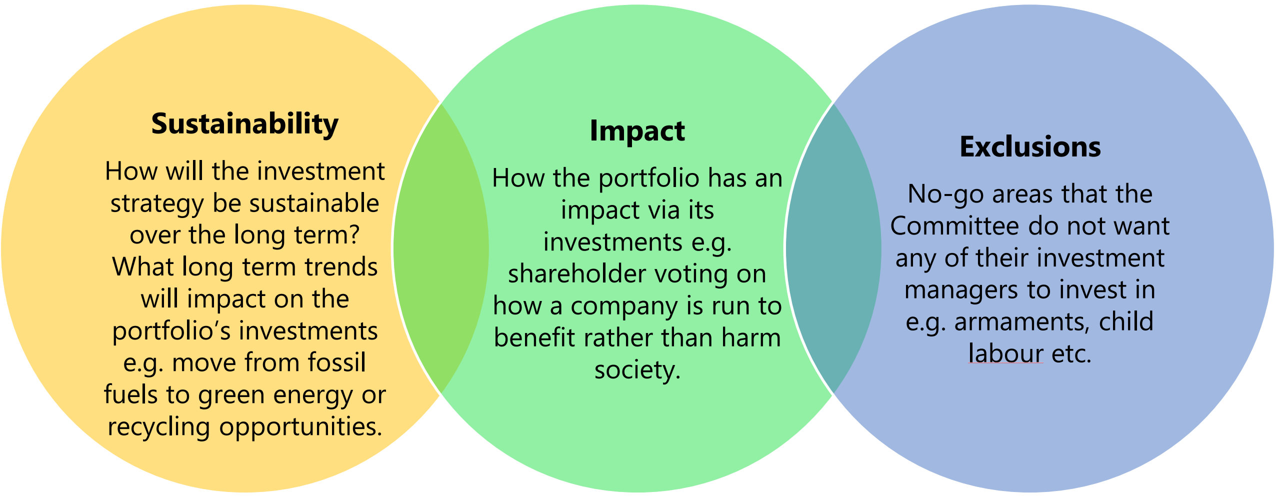
The Isle of Man Government demonstrated its commitment to responsible investment by becoming a signatory to the United Nations Principles for Responsible Investment (PRI) in January 2020. The PRI is the world's leading proponent of responsible investment.

The PRI defines Responsible Investment as "considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship)."

The Committee has adopted this definition of Responsible Investment and seeks to implement, wherever possible, aspects of the associated voluntary and aspirational six principles which are follows:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Be active owners and incorporate ESG issues into our ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Work together to enhance our effectiveness in implementing the Principles.
- Promote acceptance and implementation of the Principles within the investment industry.
- Report on our activities and progress towards implementing the Principles.

The diagram below demonstrates some of the higher level ESG considerations the Committee make within this Policy.



The investment portfolios are managed on a discretionary basis, therefore it is critical that the appointed investment manager's views are aligned with this policy. As part of the investment manager selection process each manager's ESG approach and processes are reviewed and must closely align with the Government's expectations. An overview of the investment manager & adviser selection process is provided later in this document.

Definitions

- **Responsible Investment** – Considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship).

- **Environmental** - factors consider a company's impact on the environment.

- **Social** - factors assess its relationships with employees, communities, and customers.

- **Governance** - factors evaluate its leadership and management practices.

- **Sustainability** – Meeting the needs of the present without compromising the ability of future generations to meet their own needs.

- **Stewardship** – The responsible allocation, management and oversight of capital to create long-term value, applied by Investment Managers and Advisors on behalf of their clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

- **Voting** – In the context of this policy, Voting refers to the Investment Managers taking part in voting activities, such as Annual General Meetings (AGM) or Extraordinary General Meetings (EGM), when available to them by virtue of them acting on behalf of the Isle of Man Treasury as the shareholder.

Investment Manager & Adviser Selection

The Investment Manager and Adviser selection process follows the Isle of Man Government Financial Regulations that are in force at the relevant time. The procurement requirements mean that services are tendered via the procurement portal.

As the portfolios are managed on a discretionary basis it is important that during the selection process the Committee understands how the potential managers will align their own responsible investment and ESG principles with those set out within this policy.

The Committee seek to appoint best in class investment managers, to manage the portfolios on a discretionary basis in line with prescriptive mandates per asset class.

The tender documents state the criteria by which the prospective investment managers and advisers are assessed, in terms of quality, ESG and investment performance.

As part of the pre-qualification process, it is mandatory that potential investment managers are signatories to the PRI. This provides the Committee with a preliminary level of comfort over the activities undertaken by potential investment managers and advisers on their behalf.

Any investment managers who pass the initial screening are then scored against several areas including, but not limited to, team structure, investment processes and strategies, risk management and ESG factors. The section dedicated to ESG requires managers to provide a detailed overview of the processes they have implemented to ensure that their internal procedures being applied to portfolios are closely aligned to this Policy.

Investment advisers who pass the initial screening as PRI signatories are assessed against areas such as the incorporation of their responsible investment policy into advisory services, ability to accommodate the Treasury's Responsible Investment Policy, level of staff expertise and the type of reporting that is available to provide assurance of ongoing monitoring and accountability.

Environmental, Social and Governance (ESG) Investment Considerations

Treasury's investments are managed by discretionary investment managers, who have been carefully selected and appointed following a rigorous vetting process which includes detailed analysis of their ESG practices to ensure they are aligned with those set out within this policy. Treasury have elected to adopt MSCI ESG ratings methodology in order to assess and monitor overall acceptable exposure across the discretionary portfolios and limits are set with the managers to ensure an overall minimum acceptable ESG rating is achieved.

Treasury expects that for all asset classes which carry an MSCI ESG rating (or equivalent), the strategy will target a minimum overall blended ESG Rating of 'A' (or an equivalent rating) with each position having an individual ESG Rating of 'BB' (or equivalent) or higher. Should a position within such an asset class not be covered by MSCI (or an equivalent provider), due to lack of coverage by the provider, the portfolio manager will determine the position's equivalent rating.

MSCI ESG Methodology & Ratings

MSCI is a leading provider of critical decision support tools and services for the global investment community

With over 50 years of expertise in research, data and technology, they enable clients to understand and analyse key drivers of risk and return and confidently build more effective portfolios. Clients use their industry-leading, research-enhanced solutions to gain insight into and improve the investment process.

MSCI strive to bring greater transparency to financial markets and use innovation to drive global economies. Healthy economies stimulate job creation, encourage infrastructure development, and generate the returns necessary to improve living standards for everyone, everywhere.

MSCI ESG Ratings aim to measure a company's management of financially relevant ESG risks and opportunities. They use a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). They also rate equity and fixed income securities, loans, mutual funds, ETFs and countries.

MSCI's ESG assessment methodology process is summarised below.

Our approach

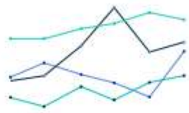
Data	Metrics	Evaluation	Rating
No questionnaires We collect and standardize public data: • Alternative data including government, regulatory and NGO datasets • Company disclosure documents • 3,400 media sources	• Standardized methodology to assess company Risk Exposure and Risk Management relative to industry peers • MSCI's ESG issuer communications team engages with companies for data verification	• Industry-specific Key Issues are scored (0-10) using a rules-based methodology • Daily monitoring and weekly update of controversies and events	• Key ESG Issue scores and weights combine to create an overall ESG rating (AAA – CCC) relative to industry peers • Ratings are subject to industry and market-led checks and formal committee review

Outputs

Company, Industry & Thematic Reports

Portfolio Analytics

Data Feeds



Indexes

Additional insight into significant ESG risks and opportunities through:

- Company reports
- Industry reports
- Thematic reports
- Analyst calls and webinars

Available on:

Aladdin, Archer, Barra®, Barclays POINT, Barra PortfolioManager, Bloomberg, Caissa, Clearwater, Crux, FactSet, MSCI Beon, Novus, Rimes, RiskMetrics® RiskManager, StyleResearch, MSCI ESG Manager or integrated into client platforms

More insight. More context. More informed decisions.

CCC	B	BB	BBB	A	AA	AAA

LAGGARD	AVERAGE	LEADER
A company lagging its industry based on its high exposure and failure to manage significant ESG risks	A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers	A company leading its industry in managing the most significant ESG risks and opportunities

Applicable Assets and Investments

The Committee will apply this Policy to the investments within the mandates but recognise that, for some asset classes, ESG considerations cannot and need not be taken into account.

Category	Asset Class	ESG Policy Applicable?
Equities	UK Active Equity	Yes
	Global Active Equity	Yes
	Global Passive Equity	Yes
Fixed Income	Fixed Income	Yes
Real Estate	Direct Real Estate Holdings	Yes
Alternatives	Primary funds, Secondaries and direct/co-investments	Yes
Cash	Cash	No

Market Enforced Limitations / Constraints

The Committee recognises that there may be certain limitations and constraints that mean the policy may not be able to be fully implemented at inception, however it is expected that all investment portfolios will become fully compliant as soon as is reasonably practicable, subject to market conditions.

Stewardship and Voting Considerations

The Financial Reporting Council published the 2020 UK Stewardship Code which defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

The Committee has adopted this definition of stewardship, and seeks to apply these principles towards the assets that it holds. The Committee looks to ensure that its appointed investment managers, where possible, are members of the UK Stewardship Code to ensure that these principles are also adopted by the companies responsible for investing Government funds.

Given the Treasury is a government body, the Committee believe that it would be inappropriate for there to be direct involvement in voting and stewardship practices. Therefore, as part of the discretionary mandates, the Committee delegates stewardship and voting activities to the appointed investments managers. In delegating this responsibility the Committee allow the investment managers to apply their internal processes.

As a signatory to the PRI, the Treasury has an obligation to report annually on Stewardship and Voting activities. In order for Treasury to adhere to this, investment managers are required to submit returns advising of activity that has taken place throughout the year and update the Committee where they deem necessary if issues arise with an investment within the portfolio.

Voting can be seen as a form of escalation where engagement has not reached a satisfactory conclusion between the investment managers and the companies in which they are investing.

The Committee expects that the following matters be taken into consideration when selecting investments that will eventually make up the portfolio, whilst understanding that each appointed Investment Manager may take a slightly different approach.

- **Climate change** – investee companies should be working towards limiting or reversing climate change by making efforts to reduce carbon emissions and transition to a low carbon economy.
- **Just Transition** – investee companies should connect their action on climate change with inclusive development pathways driving a 'just transition' for workers and communities as the world's economy responds to climate change.
- **Pay inequality** – investee companies should provide a fair distribution of pay.
- **Gender diversity** – investee companies should have (or be actively working towards) balanced gender representation in their organisation, throughout the workforce, including at the board level.
- **Health** – investee companies should promote healthy lives and wellbeing for all stakeholders.

- **Multicultural diversity** - investee companies should have (or be actively working towards) diverse ethnic and cultural composition of their organisation, throughout the workforce, including at the board level.

- **Biodiversity and ecology** – where relevant, investee companies should promote biodiversity, conservation and nature-based solutions to allow nature and people to flourish.

- **Packaging, waste and the circular economy** - where relevant, investee companies should aim to limit and reduce waste and make efforts to reduce their environmental impact, including considering the recyclability and re-use of their products.

- **Sustainable land use** – investee companies should have (or be actively working towards) adequate policies and programmes designed to protect biodiversity and address community concerns on land use.

- **Tax avoidance** – investee companies should pay fair levels of tax.

- **Workplace safety and standards** – investee companies should have (or be actively working towards) policies and programmes designed to protect their workers and those in their supply chain.

Exclusions

The Committee believes that certain types of investments should be excluded from or exposure limited to its direct investments on an ethical basis. These include, but are not limited to the following:

- Fossil Fuels – Given the net zero target of 2050 we will pursue a policy that sees emissions reduce over time, is aligned with that target date and is consistent with a reducing exposure to fossil fuels which it is desirable forms less than 5% of the overall portfolio.
- Pornography – Full exclusion from portfolio.
- Companies who have any involvement with child labour and/or forced labour.
- Companies who derive significant earnings from involvement in tobacco and recreational nicotine related products.
- Companies with significant involvement in the manufacture and production of controversial weapons which are defined as follows:
    - Companies involved in the core weapons system, or components/services of the core weapons system, considered tailor-made and essential for the lethal use of the weapon.
    - Companies involved in the production, maintenance/service, sale/trade, or research and development of core weapons systems.
    - Controversial weapons manufacturers are predominantly domiciled in emerging markets and are illegal to invest in in many jurisdictions.
- Code of Ethics – Where companies do not have a Code of Ethics Policy per MSCI guidelines; or such companies that display poor ESG (Environmental, Governance and Social) factors and show little sign of improving.
- Geopolitical – Exclusions may arise / be enforced when geopolitical conditions are considered adverse.

Where investments are made within an asset class such as pooled funds/collective investment schemes, investors have no direct influence on the underlying investments within the fund. The benefits of investing in pooled funds may include access to illiquid or specialist asset classes through liquid investment vehicles or exposure to a more diversified range of underlying assets in a cost effective way.

When investing in pooled funds, the Committee recognises that exclusions may not be able to be applied in full. However, the Committee will expect the discretionary investment managers to only invest in funds whose ESG ratings and policies align with this Policy where possible. This will minimise indirect investment in companies that fall within the exclusions of this Policy.

Monitoring and Governing the Policy

In order to give effect to its commitment to this Policy, the Committee will:

- Share this Policy with the investment managers and investment adviser to encourage alignment and highlight any areas of difference which can then be challenged.
- Review this Policy at least annually to ensure it remains relevant and modify the Policy if necessary.
- Monitor the portfolio's investment managers for adherence to the Policy annually.
- Review the overall portfolio positions to monitor the minimum target of blended average rating ESG Rating of 'A' quarterly.
- Provide the investment managers with feedback on their engagement and voting activities.
- Encourage the investment managers to take part in industry wide initiatives aimed at improving ESG generally and promoting the benefit of a well-functioning financial system.
- Take the Policy into consideration when appointing a new investment manager or investment adviser.
- Require yearly declarations from appointed investment managers as to stewardship and voting activities taken place on behalf of the Committee.
- Comply with returns required by UN PRI to maintain signatory status.

Appendix I - External agencies associated with the Policy

UN Principles for Responsible Investment (PRI)

The UN established 6 Principles for Responsible Investment for Investment Managers in 2006. The principles are set out on page 4.

The Committee expect the investment managers of relevant assets within the portfolio to adhere to the PRI and will monitor the rating of the managers against these Principles.

When making new investment manager appointments, the Committee will seek to appoint managers who adhere to the PRI.

2020 UK Stewardship Code

The 2020 UK Stewardship Code was established by the UK Financial Reporting Council (FRC). The Financial Conduct Authority (FCA) supports the UK Stewardship Code by requiring any authorised Investment Manager to "disclose the nature of its commitment to the Code". If a manager does not feel it applies to them for any reason, they are required to explain why not.

The principles of the UK Stewardship Code are set out in the Appendix II.

The Committee expect the investment managers of relevant asset classes within the portfolio to be signatories to the UK Stewardship Code and will monitor managers' signatory status.

Where the asset class and geographical location are appropriate, the Committee expect managers to adhere to the 2020 UK Stewardship Code.

Appendix II – Key points of 2020 UK Stewardship Code

2020 UK Stewardship Code Principles

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Signatories' governance, resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Signatories actively exercise their rights and responsibilities.