GAPP

GUERNSEY ASSOCIATION OF PENSION PROVIDERS

Environmental, Social and Governance Framework for Pensions

in association with

Guernsey Finance

United Nations Sustainable Development Goals 1 to 9 of 17

1. NO POVERTY:
No poverty in all its forms everywhere.

2. ZERO HUNGER:
End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

3. GOOD HEALTH AND WELL-BEING:
Ensure healthy lives and promote well-being for all at all ages

4. QUALITY EDUCATION:
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

5. GENDER EQUALITY:
Achieve gender equality and empower all women and girls.

6. CLEAN WATER AND SANITATION:
Ensure availability and sustainable management of water and sanitation for all.

7. AFFORDABLE AND CLEAN ENERGY:
Ensure access to affordable, reliable, sustainable and modern energy for all.

8. DECENT WORK AND ECONOMIC GROWTH:
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

9. INDUSTRY, INNOVATION AND INFRASTRUCTURE:
Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

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Introduction

With the growing global concern surrounding the achievement of the Sustainable Development Goals (SDG) by 2030, financial market players are increasingly interested in understanding how organizations manage their material Environmental, Social and Governance (ESG) opportunities and risks, and how they deliver on ESG positive impact. Covid-19 has accelerated this global drive.

ESG-related criteria have moved from a 'peripheral' concern to a 'core' issue, across all sectors and this includes pensions provision.

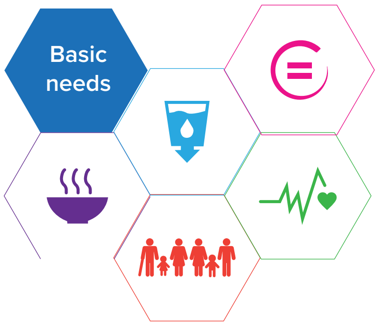
Guernsey is at the forefront of dialogue on how to embed ESG into the strategic decision-making processes of pension providers. Recognising that globally we are far from agreement on a single standard for ESG, this Framework developed by the Guernsey Association of Pension Providers ("GAPP") seeks to recognise the work Guernsey pension providers do towards achieving sustainable development goals and ensuring that ESG is at the heart of their governance structures.

The UNs' Sustainable Development Goals provide a signpost for ESG: They are used by the European Commission as the base reference for its ESG Benchmark legislation.

Guernsey retirement and savings schemes ("Schemes") contribute to achieving social SDGs or environmental SDGs, which can be grouped as follows:

Introduction (Cont.)

SOCIAL



Food, water, energy, shelter, sanitation, communications, transport, credit and health for all.

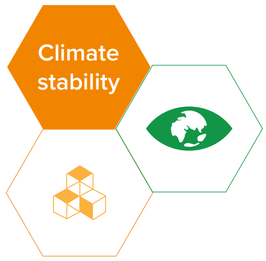
Enhanced health, education, justice and quality of opportunity for all.

Secure, socially inclusive jobs and working conditions for all.

ENVIRONMENTAL

Preserve stocks of natural resources through efficient and circular use.

Maintain ecologically sound landscapes and seas for nature and people.



Limit Greenhouse Gas levels to stabilise global temperature rise to under 2 degrees.

In particular, Goal 13 on combatting Climate Change is a key goal for Schemes and an area where the investments held can make a real difference.

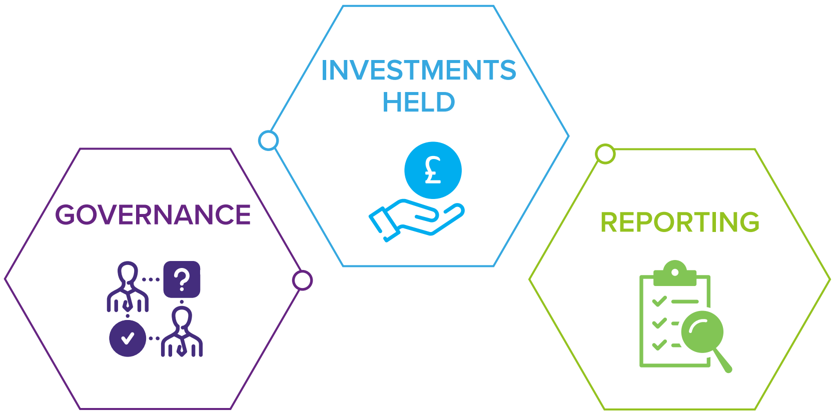
The Task Force on Climate-related Financial Disclosures ("TCFD"), which was established by the international Financial Stability Board in 2015, has published well regarded recommendations on climate-related financial disclosures which have informed the development of this Framework, although it is recognised that the detailed TCFD requirements go further than would be proportionate for most of the Schemes managed by Guernsey pension providers at the present time. Further details of the TCFD requirements may be found at:

https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.

The first version of the Framework will be subject to review by GAPP within two years of its publication in order to capture emerging trends in best practice and in the light of its practical application by Guernsey pension providers.

The Framework

The framework comprises three pillars:



The framework is aimed primarily at Schemes, though several of the principles apply equally to pension providers, who are encouraged to apply these principles where practical and to set their own goals on ESG aspects. It is recognised that the circumstances of Schemes differ and that pension providers may wish to adopt the framework for some of the Schemes for which they are responsible, but not for others, at least initially.

In addition, pension providers which are regulated by the Guernsey Financial Services Commission are required to follow the Code of Corporate Governance in relation to their regulated activities, including the requirement to consider the impact of climate change on their business activities and to report on their consideration of those climate risks where thought appropriate by the pension provider's board.

Where a Scheme is member directed or third party directed, then the framework must also be adopted by those parties in order to be compliant with the framework.

It is necessary to fulfil the requirements of each of the pillars to achieve compliance with the Framework.

It is not necessary to measure the carbon footprint of the Scheme (or of the provider) in order to comply with the Framework, though such measurement is encouraged and can give valuable insights into how the Scheme can play a part in combatting Climate Change.

The Pillars

PILLAR 1:
GOVERNANCE

Principle: ESG is embedded within decision making and the governance structures of the Scheme.

The governance and decision-making processes of the Scheme must consider how the Scheme contributes to achieving the SDGs.

This consideration can be limited to SDG Goal 13 on combatting Climate Change where the provider determines that it is most appropriate to focus on this SDG.

PILLAR 2:
INVESTMENTS HELD

Principle: Investments held contribute to achieving the SDGs.

Investments of the Scheme must be held or managed by financial institutions which have signed up to the UN Principles of Responsible Investment.

PILLAR 3:
REPORTING

Principle: Transparency is at the heart of the framework.

The Scheme must disclose publicly, at least annually, how it has met the requirements of the Framework.

Pillar 1: Governance

Principle: ESG is embedded within decision making and the governance structures of the Scheme

The governance and decision-making processes of the Pension Provider must consider how the Scheme contributes to achieving the SDGs.

The Pension Provider must adopt a process to take into account the likelihood of negatively impacting the achievement of the SDGs, the probability of occurrence and severity of adverse impact. Given the broad impact of the SDGs, it is acceptable for the Pension Provider to limit consideration to SDG Goal 13 on combatting Climate Change if felt appropriate to do so.

The Scheme must hold a Statement of Investment Principles where required under the Pension Scheme and Gratituity Scheme Rules, 2021, being a statement of the principles governing decisions about investments, and must include a policy on having regard to environmental, social and governance issues when selecting investments.

Pillar 2: Investments Held

Principle: Investments held contribute to achieving the SDGs.

Schemes should invest their assets with financial institutions which have signed up to the UN Principles of Responsibile Investment.

Endorsed by the UN and investment industry CEOs, the Principles of Responsible Investment serve as a global framework to incorporate ESG factors into investment decisions and active ownership. The principles are as follows:

Principle 1 — We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2 — We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3 — We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4 — We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5 — We will work together to enhance our effectiveness in implementing the Principles.

Principle 6 — We will each report on our activities and progress towards implementing the Principles.

It is recognised that a proportion of the Scheme's assets may be held as tangible assets and that there is also a need for the Scheme to hold working capital which may vary widely with the need to pay benefits.

The Pension Provider must document how the Scheme's Statement of Investment Principles allows it to comply with the requirements of Pillar 2. The Pension Provider must also document the process to ensure that the Statement of Investment Principles is followed.

Pillar 3: Reporting

Principle: Transparency is at the heart of the framework.

It is necessary to fulfil the requirements of each of the pillars to be considered compliant with the Framework. Where a Scheme is member directed or third party directed, then the framework must also be adopted by those parties in order to be compliant with the framework.

An annual disclosure to Scheme members must be made describing how the requirements have been met. It is not necesary to conform to TCFD in making these disclosures, though such disclosure would meet the requirement of this Framework and might be suitable for the larger Schemes.

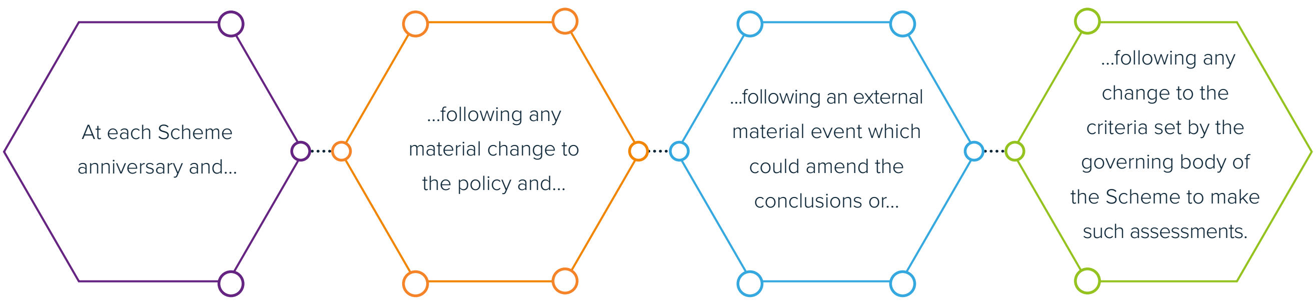
The disclosure must include the following:

1. A statement clearly showing the purpose of the public disclosure, the date of it and that it is made at the instruction of the governing body of the Scheme.

2. A confirmation that Pillar 1 has been complied with, including a description of the Scheme's ESG policy, the date of its adoption and of any subsequent revisions.

3. A confirmation that the investments held are in institutions which have signed up to the UN Principles of Responsible Investment and that Pillar 2 has been complied with.

Documentation must be approved at a governing body level and be reviewed and updated:



Disclosures must be made available to all Scheme members in order to satisfy Pillar 3 but need not disclose the full detail of the assessment.

United Nations Sustainable Development Goals 10 to 17

10. REDUCED INEQUALITIES:
Reduce inequality within and among countries

11. SUSTAINABLE CITIES AND COMMUNITIES:
Make cities and human settlements inclusive, safe, resilient and sustainable

12. RESPONSIBLE CONSUMPTION AND PRODUCTION:
Ensure sustainable consumption and production patterns

13. CLIMATE ACTION:
Take urgent action to combat climate change and its impacts

14. LIFE BELOW WATER:
Conserve and sustainably use the oceans, seas and marine resources for sustainable development

15. LIFE ON LAND:
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

16. PEACE, JUSTICE AND STRONG INSTITUTIONS:
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

17. PARTNERSHIPS FOR THE GOALS:
Strengthen the means of implementation and revitalize the global partnership for sustainable development

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