Nephila ESG Policy

Contents

I. Overview and Purpose 2
II. Scope: ESG Integration Across all Business Lines 3
III. Accountability and Transparency 3
IV. Climate and ESG Risk Management as a Core Business Capability 4
V. Driving ESG Integration Among our Partners and Counterparties 5
VI. External Engagement: Promoting Widespread Action 6
VII. Socially and Environmentally Responsible Operations 7
Important notes 8

investor.relations@nephilacapital.com
nephila.com
I. Overview and Purpose

The purpose of this document is to define environmental, social and governance (ESG) for Nephila, and how Nephila assesses ESG-driven risks and value creation opportunities and their alignment with the United Nations Principles for Responsible Investment (PRI) and Sustainable Insurance (PSI).

Nephila is an asset management firm, whose core investment business provides protection to businesses, communities and governments via a wide range of financial instruments to transfer, manage and adapt to natural catastrophe and climate-driven risks. Our definition of ESG:

- **Environmental considerations** primarily include the catastrophe and climate risk that drive our core business strategy and value proposition to counterparties and investors, as well as our efforts to communicate these trends to the broader market. Secondarily, we also are conscious of how we consume resources internally, although as a firm of ~150 employees, our workplace footprint is small relative to the environmental impact of our investing strategies and stakeholder education.

- **Social considerations** begin with providing a source of economic resilience and risk capacity to counterparties, as well as sending honest price signals to the market about evolving risks. We also are aware of the importance of clearly communicating and upholding our values; supporting our employees; managing business relationships responsibly and fairly; and driving broader industry engagement that is consistent with our values.

- **Governance considerations** start with a baseline of strong compliance and sound business practices, with an emphasis on driving transparency and accountability. We discuss evolving risks with our counterparties and look to drive accurate risk pricing and disclosure in the capital markets.

Environmental risk is our core expertise and has been our firm’s focus since our founding and defines how we approach the market and structure and price our products. Predating standard ESG tools and frameworks, Nephila’s core capabilities have centered around assessing these environmental risks and their financial materiality. We see social and governance considerations as important additional factors to manage downside risk and promote best practices in our industry.

Nephila pursues a holistic approach to driving sustainability and maintaining the highest ethical standards. In this document we will summarize our policies with respect to:

- Assessing catastrophe and climate risk and materiality;
- Driving ESG integration among our counterparties and business partners;
- Promoting widespread action through external engagement; and
- Ensuring responsible operational practices within our own firm

We have been a member of the Ceres Investor Network on Climate Risk and Sustainability since 2018, and one of our Board Members has served on the Board of Ceres since 2011 (and as Chair since 2018).

We are a signatory to the United Nations Principles for Responsible Investment (“UNPRI”) and are aligned with the United Nations Environmental Program Finance Initiative Principles for Sustainable Insurance (“UNEP PSI”). We have designed this policy to be in alignment with these frameworks and to reflect the specific nature and requirements of our business.
II. Scope: ESG Integration Across All Business Lines

Nephila manages investment funds that generate a return stream for our investors by allocating capital to natural catastrophe and climate risks.

- **Our catastrophe risk funds** receive (re)insurance premiums in exchange for taking on exposure to natural catastrophe losses via (re)insurance contracts. Our counterparties are typically property owners or (re)insurance companies looking to manage the volatility of their exposure to natural catastrophe events such as hurricanes and earthquakes. The instruments we hold in these funds are usually over the counter, non-tradeable contracts with these counterparties, protecting them from impactful losses.

- **Our climate risk funds** receive premiums, payments, or contingent cash flows in exchange for taking on exposure to climate volatility via a combination of (re)insurance and derivative contracts. Our counterparties are typically corporations looking to manage the impact of variable climate. Examples include developers of renewable energy assets and energy companies hedging their risk to warm winters. We also engage with governments and municipalities seeking protection against climate-related risks such as drought or excess snowfall and insurance companies providing government-subsidized drought protection to protect local farmers’ crop production. The risks are measurable weather events such as temperature, rainfall or sunshine rather than natural disasters. The instruments we hold in our climate risk funds are usually over the counter, non-tradeable contracts with counterparties.

- Our most significant exposure in both fund types is **physical risk**: property damage resulting from natural catastrophe events (although we do have exposure to other types of property insurance claims) or financial impact from variable weather. We are not exposed to liability claims against companies for their conduct, products or environmental damage, etc.; we also believe our exposure to transition risk is relatively low as we are a counterparty to mostly short-term risk contracts and not an asset owner.

Investors can access further detail on our investment strategies by referring to our various fund offering memoranda and regular investor reporting (more on this below). We do not typically hold assets such as publicly listed debt or equity securities.

We leverage different capabilities to engage in each market segment, and we have different levels of control and data within each instrument category. As a result, ESG factors cannot be applied to Nephila’s business in the same way they can for investors participating in public equities or direct investments. Nonetheless, we believe that consideration of ESG in our investment process is core to our business model: we consider the impact of climate change in our modeling, and we evaluate ESG factors in our selection of partner (re)insurers and counterparties.

Many of our core investors are signatories and active contributors to the UN PRI, and we work with them to ensure our processes continue to align with ESG best practices.

III. Accountability and Transparency

(UNEP PSI Principle 4 and UN PRI Principle 6)

- **Detailed Risk Reporting:** For over two decades, Nephila has provided investors and stakeholders with detailed quarterly risk reporting. Vehicle-specific risk reports detail investor exposure to different environmental risks and how these evolve over time. Nephila actively manages discussions with stakeholders to provide perspectives on emerging environmental risks and opportunities for mitigation.

- **Independent Directors:** Nephila’s funds employ independent directors to safeguard the interests of the funds and fund shareholders.

- **ESG Policy Updates:** Nephila will continually assess and monitor its progress in managing ESG considerations and will actively disclose these publicly and with investors.

- **Disclosure:** We publish an annual ESG report on our investor portal.
IV. Climate and ESG Risk Management as a Core Business Capability

(UNEP PSI Principle 1 and UN PRI Principle 1)

We are in the business of risk. Across both our catastrophe and climate businesses, our market opportunity is predicated on counterparties’ need to manage ESG risks and opportunities. Our business model is clearly aligned with societal-level ESG objectives and UN Sustainable Development Goals including:

- Taking urgent action to combat climate change (13);
- Enabling resilience and sustainability of cities and communities (11);
- Ensuring sustainable consumption and production patterns (12);
- Accelerating access to affordable, sustainable and modern energy (7);
- Enabling food security through mitigating agricultural risk (2)

Furthermore, evaluating climate and weather physical risk is an essential part of our own underwriting, capital adequacy decision-making, research, and tools.

Our internal modeling and risk expertise:

- Portfolio Management Group/Nephila Risk, Origination, and Underwriting: Evaluating catastrophe risk
  - As a baseline, we use (re)insurance vendor models from AIR and RMS. These provide stochastic event sets and their associated hazard footprints; engineering and financial modules are applied on top of these to estimate loss.
  - We have a dedicated research team to make model adjustments, primarily to validate and calibrate models (such as in coastal wind transition and storm surge); to augment models (to adjust frequency and severity for evolving risks such as wildfire), and to pursue specific event- and opportunity-driven research.
  - We also adjust our modeling to reflect potential impacts of climate change and risks that are not captured in vendor models.
  - Investors can access further detail on our proprietary approach to catastrophe modeling, event and exposure adjustments, and market intelligence.
  - We share our risk assessment with our counterparties to build awareness of catastrophe risks and provide capital to build resilience and mitigate impacts.

- Nephila Climate: Evaluating climate risk
  - We build in-house models to estimate climate risk, given the lack of available vendor models. Team has access to over 120,000 datasets across the globe.
  - We work directly with counterparties to define the risks they seek to manage and will model the range of physical and financial outcomes for all variables.
  - Our in-house data science and research team conditions data for seasonal climate factors, such as El Nino/La Nina and longer-term climate trends.
  - We can work with counterparties with sparse data or limited financial track record; we develop innovative proxies to allow us to model loss probability and price accordingly.
V. Driving ESG Integration Among our Partners and Counterparties

(UNEP PSI Principles 1-3 and UN PRI Principles 1-4)

In addition to providing transparency to our investors about how we consider ESG risks, we proactively seek to raise awareness around ESG issues with our counterparties. As such, we have implemented the following processes:

- Since we are not an asset owner, Nephila has limited ability to conduct diligence or to influence and control the integration of ESG considerations for the counterparty (to our investment instrument) - As a start, we have asked counterparties for their ESG policy/approach and how it factors into their risk analysis/underwriting process. We are currently considering applying scoring systems or other measurement tools to the underwritten risk by counterparty.
- Within our catastrophe business, we most frequently work with (re)insurance cedants and brokers. We examine their ESG policies on an annual basis, and we will proactively engage partners if they fall below an acceptable level in terms of ESG engagement. (UNEP PSI Principles 1-3).
- Within our climate business, we work with cross-industry counterparties spanning both the public and private sector. As described above, we consider social and environmental risk. In determining the terms of risk transfer agreements, we will help counterparties define the extent of their environmental risk and will structure solutions to meet their needs. (UNEP PSI Principles 1-3).
- Within all lines of underwriting, we seek to respond to clients quickly, fairly, sensitively and transparently; to ensure product and service coverage, benefits and costs are clearly understood; and to broadly drive literacy on risk and insurance. We also continuously adjust our pricing and communication to reflect ongoing experience (UNEP PSI Principle 1).
- Our core business partners for accessing risk include Markel, State National, Lloyd’s of London and Allianz Risk Transfer. All of our partners have advanced responsible investment policies; Allianz is a signatory to the UN PRI and the UNEP PSI. Lloyd’s is aligned to the UNEP PSI and supports the principles set out in the Paris Agreement. We regularly engage our business partners to align on treatment of ESG considerations. (UNEP PSI Principle 2, UN PRI Principle 4).

As a leading player in ILS and innovator in climate risk transfer, Nephila has an important role to play in educating counterparties throughout the (re)insurance chain as well as corporations and governments more broadly exposed to climate and weather.

- We are established thought leaders and publish research that we provide to counterparties and investors to illustrate range of tools and how to evaluate exposure.
- We work directly with counterparties to shape instruments to meet their peril-specific and capacity demands, and we pilot new instruments when there are unmet needs.
- We work directly with investors to articulate exposure to catastrophe and climate risk across their portfolios; we provide detailed risk analysis on a quarterly basis, along with analysis of specific events and opportunities.
VI. External Engagement: Promoting Widespread Action

(UNEP PSI Principle 3 and UN PRI Principles 4-5)

In our effort to accelerate climate resilience, we actively develop thought leadership on weather risk management and drive dialogue with public and private partners

- **State Insurance Pools:** Historically we have been one of the largest supporter of facilities providing state-backed catastrophe cover in the US, including Mississippi, North Carolina, Massachusetts, Florida and Texas, as well as Flood Re in the UK. From an environmental point of view, we send a price signal to quasi-governmental entities on risk and changes in that risk arising from climate factors. From a social standpoint, we help the resiliency of the state by taking this risk from the public balance sheet and promote a fairer society by sending a price signal on fraudulent claims practices. This also encourages the movement of risk to the private market by being transparent about the fact that we are charging for this risk, with the subsequent reform having the effect of lowering premiums to good actors (by removing the subsidization of fraud). This is broadly true across catastrophe and climate risk - price signals deter actors from building in dangerous areas, promoting a safe and more resilient society.

- **Renewable Energy:** We have a deep network with developers, operators, and financiers with whom we have worked for 15 years to execute climate risk transfer structures that have enabled the development of new renewable energy projects globally.

- **Investors:** We actively educate all prospective and current investors through a series of presentations which introduce the firm’s principles, investment practices, and environmental risk methodology.

- **Research:** Our dedicated research team regularly publishes detailed industry perspectives and thinking on catastrophe and climate risk mitigation.

- **Public Sector partnerships:** Nephila plays a key role in public-private partnerships that accelerate climate resilience.

- **New Product Development:** We encourage new approaches within our markets, targeting our investor capital to sectors where there is a structural need. Our “follow the logic” approach since inception has led us to develop new initiatives across all our strategies.

- **Ongoing dialogue:** Presentations and participation in forums hosted by organizations such as The Gordon and Betty Moore Foundation, The World Bank, The National Flood Insurance Program, The Rockefeller Foundation, FEMA, and others.
Nephila actively contributes to industry networks and framework development:

• Encourages institutional investors to incorporate sustainable initiatives as member of Ceres Investor Network on Climate Risk and Sustainability.
• Developing measurement and reporting impact against UN SDGs as members of and collaborators with the Global Impact Investor Network (GIIN) to build out metrics for energy and agriculture climate resilience.
• Signatory to UN PRI and in alignment with UNEP PSI.
• Through direct investments, we support organizations improving risk analysis:
  – Sponsor of Global Earthquake Model; aims to improve earthquake resilience.
  – Investor in Cape Analytics and Tensorflight, providing better information about exposure of buildings to risk.
  – Partnerships with tech companies such as WeatherPredict and Riskpulse, promoting better forecasting.
• As a member of the Standards Board for Alternative Investments, we support alignment of broader industry standards with ESG best practices.
• As a member of Reinsurance Association of America, we participate in efforts to promote policy and regulations to ensure preparedness for catastrophe events.

VII. Socially and Environmentally Responsible Operations

– Nephila seeks to minimize its environmental footprint and conduct business operations at the highest ethical and social standard. As such, we consider these factors:
  • Environmental: Nephila’s operations are office-based, and consequently do not produce significant emissions or consume resources at the level of industrial facilities. Nonetheless, we seek to minimize the footprint of each office, spanning energy use, water, waste and travel. We actively encourage staff to be respectful and thoughtful in how they consume resources. While we occupy offices across three countries, we minimize travel through frequent use of videoconferencing technology, and we encourage staff to travel only when necessary.
  • Workers: We seek to provide every employee with fair compensation, health and retirement benefits, family leave and training opportunities. Employees participate in both mandatory and voluntary trainings, and Nephila provides sponsorship for employees to attend external training. Within each office, employees are encouraged to engage and learn across teams; our offices host regular ‘Lunch & Learn’ events, team offsites, and bi-annual office social gatherings. In addition, we support employee health and well-being by providing daily meal catering and a quarterly allowance towards personal wellness. We have always believed in and built a diverse global workforce; our teams are drawn from over fifteen nationalities and span four offices in three countries (the US, Bermuda and the UK). We allow flexible work hours to enable employees to balance the needs of work and their personal lives.
  • Nephila maintains a culture of compliance. We have a Chief Compliance Officer in Bermuda, along with a Compliance Committee made up of members throughout the organization. Every employee receives annual compliance training and targeted compliance training suitable to their functional area. The firm is compliant with several required regulatory protocols in addition to the voluntary protocols noted above.
  • We have an ESG Committee, which consists of three members to guide decisions arising from this policy and to supervise the reporting and update the components of this policy over time.
Important notes

This material is being provided for information and discussion purposes only and is qualified in its entirety by the information included in the definitive confidential offering documents (each a ‘Memorandum’) of each Fund, and is not intended to be, nor should it be construed or used as, investment, tax or legal advice or an offer to sell, or a solicitation of an offer to buy, an interest in a Fund or any other product managed or advised by Nephila. Any offer or solicitation of an investment in a Fund may be made only by delivery of such Fund’s Memorandum to qualified investors.

An investment in a Fund is not suitable for all investors. Alternative investments and privately offered investment vehicles can involve significant risks, and the value of a Fund may go up and down. This information is subject to change. Before making any investment in a Fund, you should thoroughly review its Memorandum with your professional adviser(s) to determine whether an investment in the Fund is suitable for you in light of your investment objectives and financial situation. Each Fund’s Memorandum contains important information concerning risk factors, including a more comprehensive description of the risks and other material aspects of the investment (including the Fund’s investment program and applicable fees and expenses), and should be read carefully before any decision to invest is made. You should not rely in any way on this material.

The investment products described herein are private investment funds and/or managed accounts sometimes referred to as “Alternative Investments”. Alternative investments, depending upon their investment objectives and strategies, may invest and trade in many different markets, strategies and instruments (including non-securities and derivatives) and are NOT subject to the same regulatory requirements as mutual funds, including mutual fund requirements to provide certain periodic and standardized pricing and valuation information to investors. There are substantial risks in investing in an Alternative Investment.

You should note carefully the following:

- A Fund represents a speculative investment and involves a high degree of risk. An investment in a Fund should be discretionary capital set aside strictly for speculative purposes. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment in a Fund. An investment in a Fund is not suitable for all investors. An investor could lose all or a substantial portion of his/her/its investment. Only qualified eligible investors may invest in a Fund.
- A Fund’s offering documents are not reviewed or approved by federal, or state regulators and its privately placed interests are not federally or state registered.
- An investment in a Fund may be illiquid and there are significant restrictions or transferring or redeeming interests in a Fund. There is no secondary market for an investor’s investment in a Fund and none is expected to develop. Substantial redemptions by shareholders within a limited period of time could compel a Fund to liquidate its securities positions more rapidly than otherwise would be desirable, which could adversely affect the value of the distribution proceeds and the value of the remaining interests in a Fund.
- The net asset value of a Fund may be determined by its administrator in consultation with its manager or advisor or based on information from the manager(s) of the underlying Fund(s). Certain portfolio assets may be illiquid and without a readily ascertainable market value and the accuracy of valuations of other manager may be difficult to verify. Since the value assigned to portfolio securities affects a manager’s or advisor’s compensation, the manager’s or advisor’s involvement in the valuation process creates a potential conflict of interest. The value assigned to such securities may differ substantially from the value a Fund is able to realize. Instances of mispriced portfolios, due to fraud or negligence, have occurred in the industry.
- A Fund may have little or no operating history or performance and may use performance which may not reflect actual trading of the Fund and should be reviewed carefully. Investors should not place undue reliance on hypothetical, pro forma or predecessor performance. A Fund’s actual performance may differ substantially and may be volatile.
- A Fund’s manager or advisor has total trading authority over a Fund and may be subject to various conflicts of interest. The death, disability or departure of the manager or advisor may have a material effect on a Fund.
- A Fund may use a single advisor or employ a single strategy, which could mean a lack of diversification and higher risk. A Fund of Funds relies on the expertise of the underlying manager.
- A Fund may involve a complex tax structure, which should be reviewed carefully, and may involve structures or strategies that may cause delays in important tax information being sent to investors.
- A Fund’s fees and expenses – which may be substantial regardless of any positive return – will offset such Fund’s trading profits. If a Fund’s investments are not successful, these payments and expense may, over a period of time, deplete the net asset value of a Fund.
- A Fund may employ leverage. The more leverage used, the more likely a substantial change in value may occur, either up or down. A Fund may trade futures or may trade on foreign exchange, where the risk of loss may be substantial.

The above summary is not a complete list of the risks, tax considerations and other important disclosures involved in investing in a Fund and is subject to the more complete disclosures in such Fund’s offering documents, which must be reviewed prior to making an investment.