ENTROPICS
Asset Management AB

Policy för Responsible Investments

Version 1
Adopted 2015-02-11

Innehållsförteckning

1 Document Control

1.1 Document Owner

Henrik Sjöholm

1.2 Areas of application

Investment decisions by the Underwriting Committee

1.3 Rules for adoption and revision

This policy is to be adopted by the board of Entropics Asset Management AB. The first and previous versions are listed below.

Version	Comment	Adopted by	Applicable from
1		Entropics' Board	11/2/2015

1.4 Document Distribution

This policy has been distributed to the following recipients.

Version	1	2	3	4	5
1	Investment Committee	The board	Head of responsible investment		

1.5 Updating policy

This policy shall be revised, updated and adopted annually; unless a more other circumstances call for more frequent updates.

2 Scope, Purpose and Aims of the Policy

2.1 Scope

This policy applies to all investment decisions by Entropics' Underwriting Committee

2.2 Purpose

The purpose is to ensure a high standard of social and environmental responsibility in all investment decisions. The ambition of this policy is to set a framework that will assist Entropics to achieve the policy aims through a set of applicable guidelines to be used in all investment decisions. The policy should be reflected in policies and procedures guiding the investment process.

2.3 Policy Aims

The policy for responsible investments aims at ensuring that responsible investments are considered in all investment decisions by Entropics. In particular, investments should contribute to a well-functioning catastrophe insurance market that enables good insurance protection for individuals and businesses, thus stimulating investments and economic growth.

In addition to this, Entropics will avoid investments that directly support ethically or environmentally questionable causes, such as violating human rights, arms proliferation or damaging the climate.

3 Introduction: Responsible Investments and Cat Bonds

Cat Bonds transfer insurance risks from a risk carrier to the financial markets. As the financial markets are many times larger than the insurance markets, they have a much larger capacity to absorb shocks, such as costs for disaster relief and reconstruction after a large natural catastrophe.

Cat Bonds appeared in large scale in the 1990's as one of several financial instruments to mitigate natural catastrophe risks in the aftermath of hurricane Andrew in 1992. Though most of these instruments still exist, Cat Bonds emerged as the most viable option and the use of Cat Bonds increased rapidly as a response to the insurance needs in Florida. The introduction of Cat Bonds helped solve a situation where the regional insurance market lacked the capacity to assume further catastrophe risks. As such, the possibility to transfer risks to the financial market increases the availability of insurance protection to home and business owners.

In case of a natural catastrophe event that strikes an area covered by one or more Cat Bonds and is sufficient to trigger these, the Cat Bonds ensure availability of funds for disaster relief and/or reconstruction. The loss suffered by investors is thus put to good use.

Most Cat Bonds issued to date cover catastrophe risks in highly developed economies and, in particular, hurricane protection on the US East coast. However, a trend towards Cat Bonds covering catastrophe risks in new areas and perils has become obvious in the last few years. This trend is largely market driven, by investors' interest to acquire diversifying bonds, but also by increasing interest in Cat Bonds as a means to mitigate catastrophe risks in developing economies by other institutions, such as the World Bank and the IPCC.

One result of the trend is a move, albeit too slow, towards standardized Cat Bond structures as well as the intervention of international institutions even to the level of issuing Cat Bonds themselves. Over time, this will ensure that Cat Bonds will become a realistic option in other, less economically advanced regions. However, a certain level of economic sophistication will probably still be a prerequisite for the use of Cat Bonds.

This development is, in turn, interesting from a development perspective, as economic growth today is limited in many regions due to the lack of adequate insurance protection, making already risky investments even more risky. By removing doubts about the economic capacity of regional insurance markets, insurance will be more available and facilitate investments.

The Cat Bond asset class can, thus, be considered an economic force that benefits development and helps mitigate catastrophe risks.

This said there are still ethical considerations that must be made to ensure a high ethical standard for an investor. Examples can include the kind of insurance risks covered by the Cat Bond or attempts to deny or delay release of funds from a triggered Cat Bond.

4 Entropics' Principles for Responsible Investments

Entropics applies the following four criteria to any investment decision by the Underwriting Committee.

4.1 The purpose of the insurance risks underlying a Cat Bond should be beneficial to society

Entropics invests, as a general rule, only in Cat Bonds that improve the availability of insurance against natural catastrophes or other events beneficial to society. An example of the latter could be so called "longevity bonds" where life insurers transfer the "risk" that people live longer than the company's assumptions (and by transferring this risk, lifespan estimates can be a bit less conservative, benefitting policy holders).

Examples of investments that are, in general, not acceptable could be bonds where the purpose of the bond is not to provide relevant insurance or, possibly, an explicit purpose to improve society by emitting the Cat Bond. As any asset manager must deliver attractive returns to ensure continued operation, Entropics cannot completely rule out investments in "unconventional" risks for diversification purposes. However, all such investments must be made on a case by case basis and with special motivation by the Underwriting Committee.

4.2 Investments should not be made in instruments designed to primarily cover risks carried by problematic entities

Most listed Cat Bonds are, in this respect, unproblematic, as they don't offer targeted insurance protection for a particular enterprise or industry. It is not problematic that even questionable industries will be covered by a generally available insurance protection, backed by a Cat Bond.

However, non-listed bonds and other similar instruments (such as Industry Loss Warrants) can be issued to cover risks for individual enterprises or small groups of enterprises. Entropics could, as a result, be offered to invest in insurance protection primarily targeted at problematic entities. It should be emphasized that there are few known instruments that would be affected by this.

4.2.1 Fundamental principles to be observed when investing in insurance related instruments

Entropics invests only in targeted instruments if the benefactors of these instruments respect the following fundamental principles:

- Do not violate fundamental human rights
- Do not knowingly harm the local population or undermine democratic processes or the rule of law
- Do not knowingly harm the environment or harm people's health
- Do not make use of corruption and bribery

Instruments giving particular coverage to companies that knowingly or by gross neglect breach these standards or otherwise behave in violation with human decency will not be accepted by Entropics.

4.2.2 Industries of Particular Concern

The fundamental principles above call for particular concern regarding a number of industries, such as:

- Manufacturing, distribution or marketing of harmful tobacco products
- Manufacturing, distribution or marketing of alcohol
- Manufacturing, distribution or marketing of pornography
- Manufacturing, distribution or marketing of military equipment
- Extraction or unnecessarily extensive use of fossil fuels

Entropics will not invest in instruments that directly support extraction of oil, coal or shale gas or manufacturing of harmful tobacco products, pornography and lethal weapons that can be used in an offensive capacity.

Instruments partially covering, to a very limited extent, for example, extraction of natural gas or distribution or marketing of problematic products, as described above, are considered eligible.

Instruments specifically (in whole or partially) related to WMD as well as weapons covered by the Convention on Certain Conventional Weapons or that engage with oppressive regimes or armed groups, are not eligible.

4.2.3 A Cautionary Principle for Complex Instruments

As insurance linked instruments differ greatly from, for example, equity, ethical issues could be fairly complex. If, for example, an instrument would cover not only material damages to oil extraction infrastructure, but also workers' protection and/or harm to nature from an accident, it is not always clear what the ethical decision should be.

Entropics will, in these cases, apply a cautionary principle, evaluating individual instruments to clarify their main purpose and whether an investment would be defendable based on this policy.

Any decision to invest in instruments where issues have been identified must be especially motivated by the Underwriting Committee, and the total value of these instruments should not exceed 10 % of a fund's AUM during normal operations.

4.3 Action when a Cat Bond triggers should be fair

Even when a Cat Bond triggers (becomes a "dead cat" in the industry terminology), is it generally tradable. One reason for this is the speculation that claims by the risk carrier may be denied, for a number of reasons. These could include doubts about trigger conditions, suspicions of "moral hazard", where the risk carrier has taken unnecessary risks, or complaints about formalities. Though few Cat Bonds have actually triggered to date, there are signs that certain hedge funds buy dead cats in an attempt to recover value by challenging the claims.

Entropics' position is not to engage in speculation against triggered bonds in hope of denying fair claims by the risk carriers. Consequently, Entropics will not participate in legal proceedings that we judge only aim at challenging fair claims. This is in the best interest of those affected by a natural catastrophe event, but also serves to improve the Cat Bond market as it builds necessary trust from sponsors to issue future bonds.

4.4 Investments in other assets or money market instruments

While Entropics is focused on Cat Bonds and aim at maximizing its exposure to catastrophe risks, our funds must have the opportunity to invest in other assets to achieve sufficient risk diversification and to optimize the timing of investments in Cat Bonds.

The use of money market instruments is considered to be ethically unproblematic, as the instruments chosen by Entropics will be, without exception, issued by stable central banks in developed economies in stable democracies.

Investments in other assets (e.g. in a UCITS fund, Entropics may invest up to 10 % in other UCITS assets) should generally be assessed using the same guidelines as for Cat Bond investments.

5 UN PRI Participation

Entropics signed in February 2015 the UN Principles for Responsible Investments (UN PRI). This is a framework to help investors build environmental, social and corporate governance issues into their investment process, to improve long-term returns and create more sustainable markets. By becoming a signatory, we commit ourselves to the following:

- To incorporate Environmental, Social and Corporate Governance (ESG) issues into investment analysis and decision-making processes;
- To be an active owner and to incorporate ESG issues into our ownership policies and practices;
- To seek appropriate disclosure on ESG issues by the entities in which we invest;
- To promote acceptance and implementation of the Principles within the investment industry;
- To work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the Principles;
- To report on our activities and progress towards implementing the Principles.

5.1 Incorporate Environmental, Social and Corporate Governance (ESG) issues into investment analysis and decision-making processes

This is accomplished by applying this policy in all decisions by the Underwriting Committee and by an annual review by the board.

5.2 Be an active owner and to incorporate ESG issues into our ownership policies and practices

As Entropics invests primarily in Cat Bonds and money market instruments and thus never becomes a shareholder, this is hardly applicable to our business.

5.3 Seek appropriate disclosure on ESG issues by the entities in which we invest

In most cases, the nature of the investment as described by the prospectus will cover this requirement. Entropics will, if necessary, conduct its own investigations of possible investments if the prospectus leaves room for doubt.

5.4 Promote acceptance and implementation of the Principles within the investment industry

Entropics will actively promote its adoption of the principles on our website and in our reporting. We will use opportunities to promote their adoption in different industry forums.

5.5 Work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the Principles

Entropics will actively participate in these efforts and will gradually increase its participation as the company's capacity increases.

5.6 Report on our activities and progress towards implementing the Principles

Entropics will report on activities and progress starting in 2015. The reports will be published on our website.

6 Contributions to an Improved Cat Bond Market

While Entropics already considers Cat Bonds to be a productive tool to improve insurance coverage and to make funds for disaster relief and/or reconstruction available, we also believe there is room for improvement, particularly in furthering their use in developing economies. Presently, we have identified three important issues.

6.1 Standardization

So far, standardization of the emission process has been a slow process. Though many discuss the need for standardized structures, the only known example so far is the MultiCat program by the World Bank. A simpler and more standardized emission process could greatly improve the usability of Cat Bonds in developing economies, as the resources needed to emit a bond would decrease dramatically.

Entropics will actively participate in the industry's ongoing discussion on standardization efforts.

6.2 Shortened lead time from triggering to reimbursement

One advantage with Cat Bonds, particularly in relation to national or regional governments that utilize them for insurance protection is the potentially short lead time from the moment when a Cat Bond has triggered to the actual payments from the bond. In case of a catastrophe, this could be very important to help in disaster relief or early reconstruction.

In practice, however, time can be lost due to legal disputes or uncertainties about how much should be reimbursed by the Cat Bond. This is especially true for bonds using indemnity triggers, where the actual financial costs must be calculated before the claims can be settled. Though these triggers are favoured by many insurance companies, they are not necessarily the most favourable for people affected by natural catastrophes.

Entropics will support efforts to speed up the claims process and to improve the availability of funding once a bond has been triggered.

6.3 Improved insurance protection in developing economies

While the trend towards new markets and new perils is very promising, it should be acknowledged that it is still in its infancy. Increased standardization and improved lead times to reimbursement may increase the attractiveness of Cat Bonds in many developing economies. But also increased demand, by efforts from investment managers and institutional investors could improve the situation.

Entropics will try to work with other entities in the industry to increase demand for new bonds over time. This could include raising funds with a special focus on new regions and perils as well as developing methods for improved investment decisions in less well modelled perils, as is often the case in developing economies.