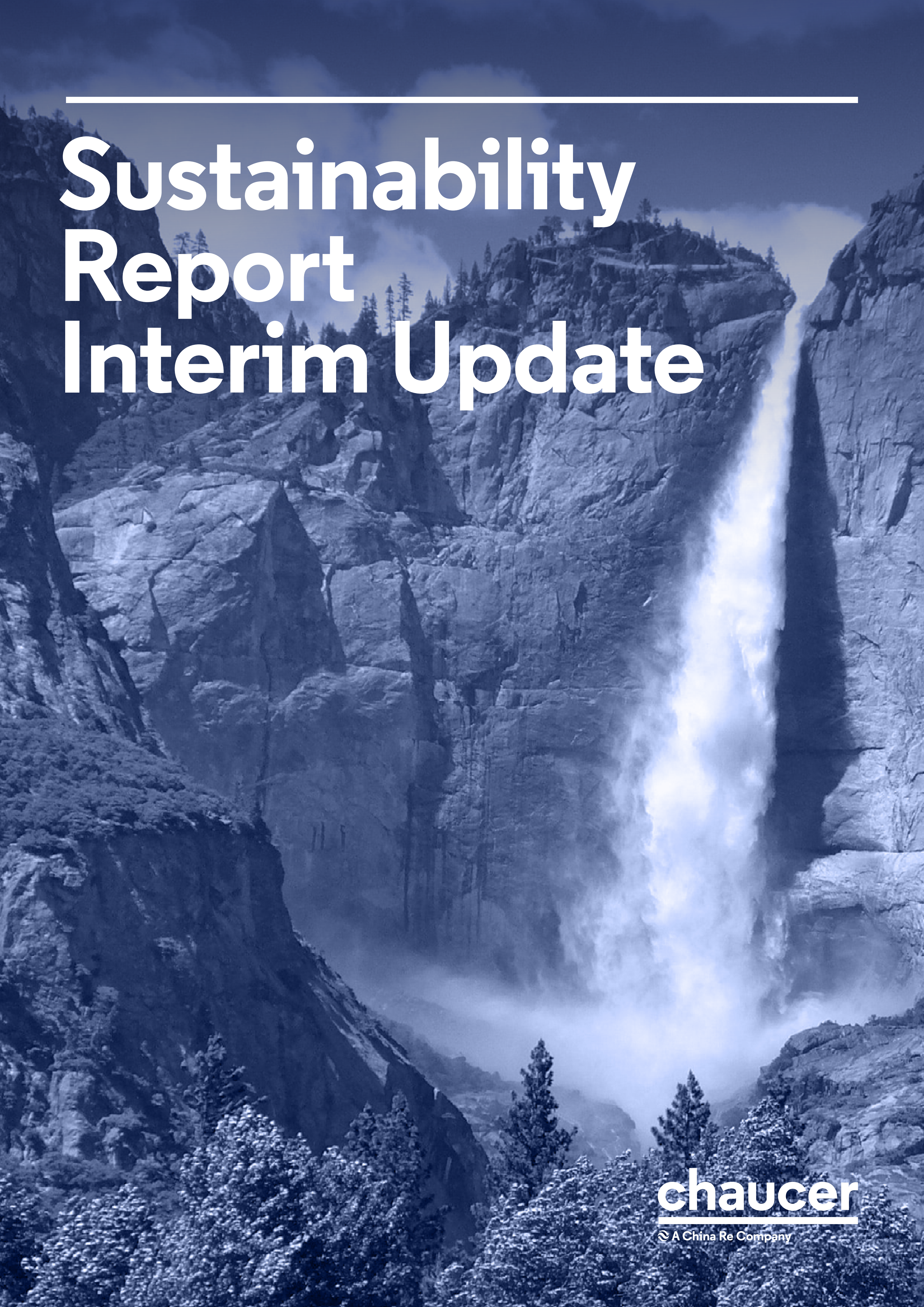
Sustainability Report Interim Update



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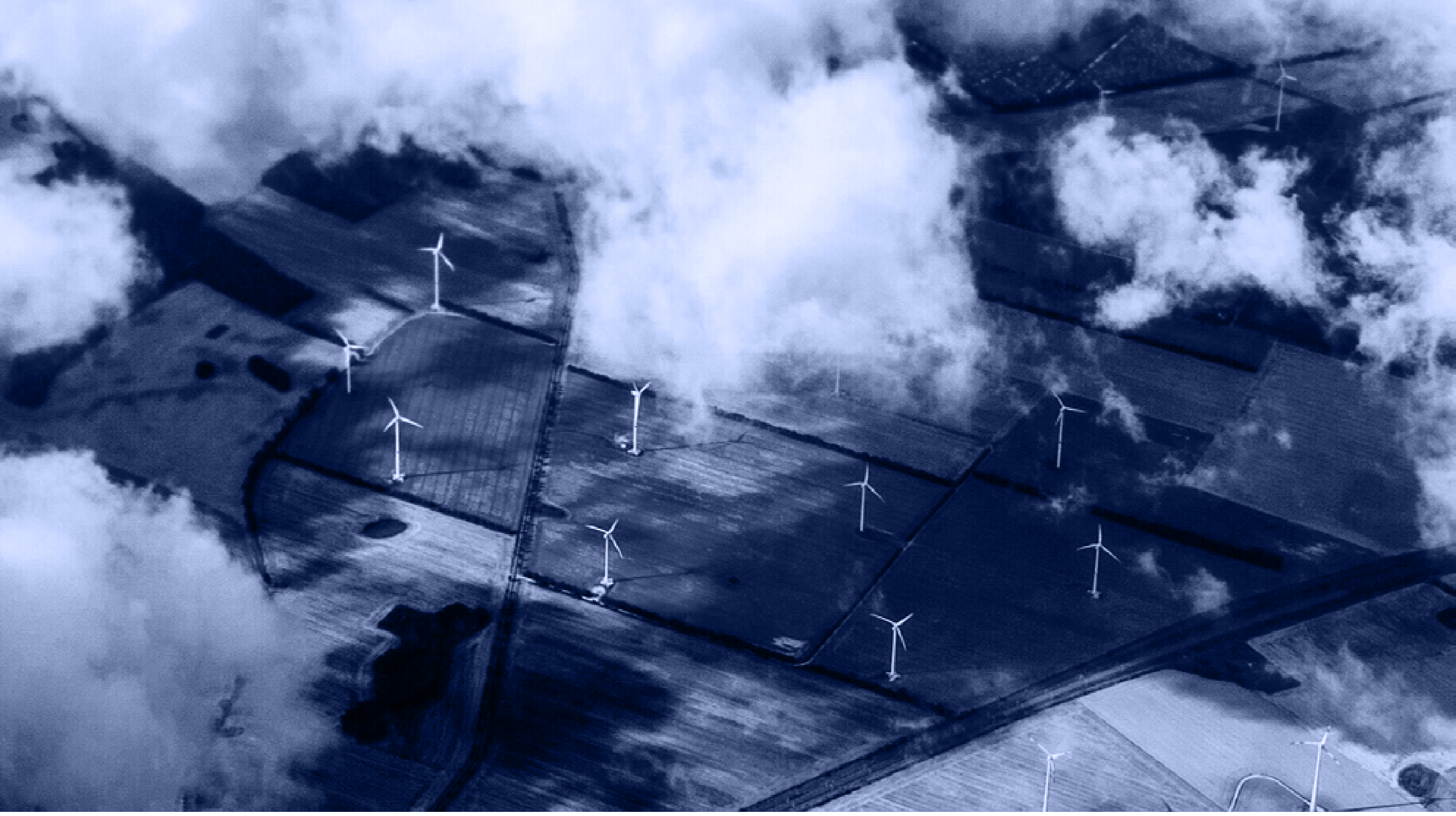
Introduction

We published our first annual Sustainability Report in September 2022. In that report, we advised we would be publishing regular updates on our progress.

This is the first of these updates, the purpose of which is to provide a snapshot of the key sustainability objectives we have been working towards. Specifically, we address our emissions footprint and the first results of our Balanced Scorecard.

However, before we address the updates it’s worth providing a reminder as to how we at Chaucer define ESG and why we believe it is important.



What is ESG?

ESG is the use of Environmental, Social and Governance metrics in the management of a business, whether that concerns investment, partnership, people or other matters. Although forms of ESG have been around since the 1970s, in its modern form, ESG first appeared in the 2000s, and over the last decade, it has become an increasingly important consideration for most companies. Even so, ESG means different things to different organisations.

At Chaucer we define it as

‘the consideration of environmental, social and governance factors in the decision-making process.’

Why is it important?

Companies need to stand for something more than just generating profits. In recent years, stakeholders, ranging from governments and investors to employees and consumers, have increasingly demanded that businesses have high ethical standards and are run sustainably. For nearly every company, this is very much a journey, and we believe that as an industry and an organisation, we have a duty to ensure and enable a sustainable transition.

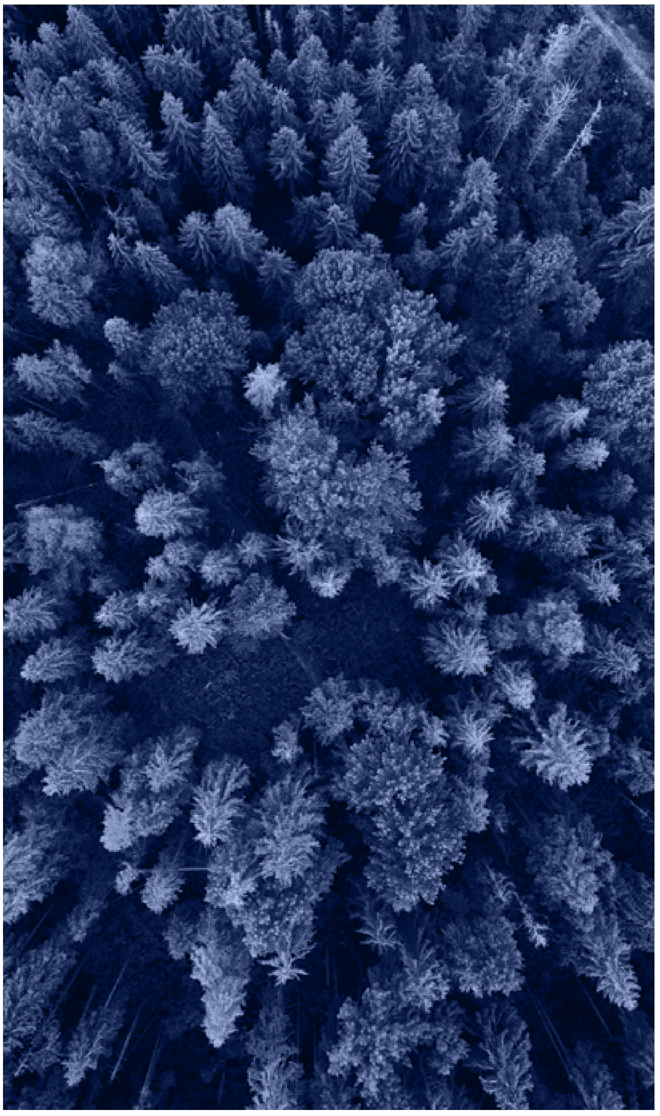
ESG also makes commercial sense. There is a wealth of research to support the thesis that companies with high ESG scores tend to perform better than those with lower ESG scores. Companies which score highly tend to be managed well, they often find access to capital easier and other companies are more willing to do business with them, not least because their own ESG strategies demand they vet suppliers.

Many would also argue that such businesses are also safer long-term investments. Because they are well run, they are less prone to risks such as falling foul of legislative changes and being caught up in scandals. For many companies, developing an ESG strategy is also a mechanism to formalise many pre-existing policies and processes, fill in gaps and bring everything together under one holistic umbrella.

At Chaucer, many of the constituent parts of our ESG policy existed prior to our ESG-specific work. For example, most of our risk assessment and decision-making processes across the business, including Underwriting, Risk, Operations, Claims, Procurement, and Investment already included some elements of ESG assessment. Thus, developing a Chaucer Group level strategy and approach largely formalises and ensures consistency across processes that are, to varying extents, already in place.

We believe that ESG approaches have two basic components. These are a company's own view of ESG (the level of proprietary thought and analysis) and the level of adoption and integration across the business. Taken together, these reflect a company's commitment to ESG.

This interim update to our annual Sustainability Report covers two areas which we have prioritised. The first is carbon reporting and the second is our Balanced Scorecard.



Section 1

Carbon Reporting

What we did

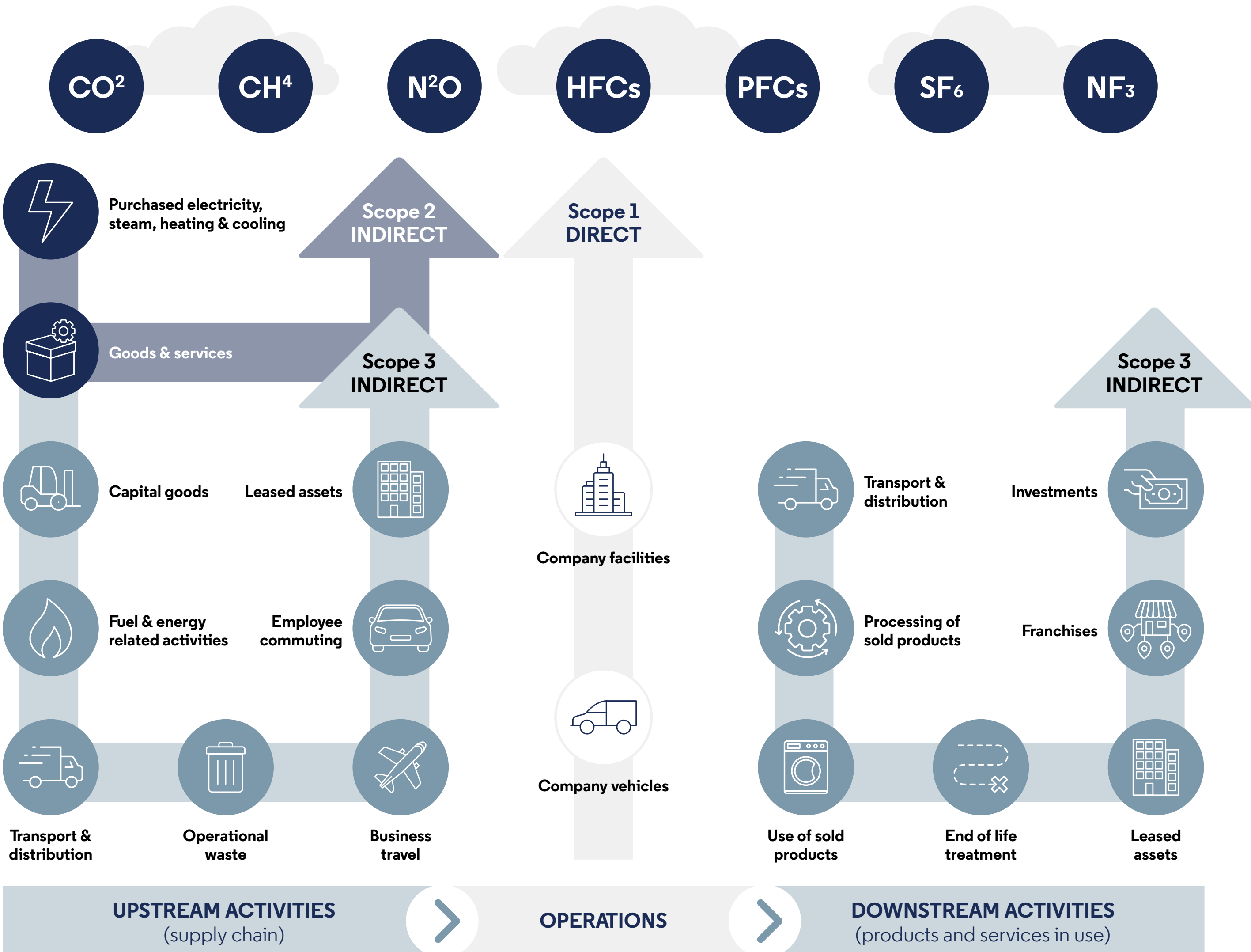
We commissioned Avieco (now part of Accenture) to calculate where possible, and estimate where not possible, our emissions from our own operations (excluding investments and underwriting) for Scope 1 (direct emissions), Scope 2 (indirect emissions), and parts of Scope 3 (supply chain emissions) using 2019 as our baseline year. Calculating emissions for our investment portfolio is planned to be completed in 2023 with underwriting to follow. Measuring an insurer's impact on these emissions is a complex issue that the market is working to develop solutions for and so will take time to quantify in a sensible way.

To do this

We used the Greenhouse Gas Protocol (GHG Protocol), to define the 15 categories across the three scopes against which we would measure ourselves. The GHG Protocol was developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development and provides the world's most widely used greenhouse gas accounting standards for companies.

The GHG Protocol classifies emissions into three Scopes and 15 Categories. Scope 1 is direct and takes into account the company's own operations (items like company vehicles and facilities). Scope 2 is indirect and includes energy purchases. Scope 3 is indirect and encompasses everything from employee commuting to investments. Figure 1 below shows a high-level breakdown of what is included within each of the Scope 1, 2 and 3 emissions according to the Greenhouse Gas Protocol.[1]

Figure 1. Greenhouse Gas Protocol overview of Scopes 1, 2 and 3 emissions[1]



[1]Greenhouse Gas Protocol (https://ghgprotocol.org/)

As noted, calculating our carbon emissions is very much a 'work in progress' and, as with all companies, there are gaps in the data. For the areas currently being investigated, we have estimated most of our Scope 1,2 and 3 emissions. Figure 2 summarises the elements of Scopes 1, 2 and 3 that went into our emissions estimate, reiterating that for Scope 3 we only considered our direct operations (not investments or underwriting).

Figure 2. Elements of Scopes 1, 2 and 3 included within Chaucer's emissions estimate

Category		Definition	Relevant	In scope of engagement	Impact area
Scope 1		**Direct emissions**			
Natural gas		Combustion of gas in operated buildings or other assets	Yes	Yes	Facilities
Other scope 1 emissions		Other fuels, refrigerants, company vehicles, etc.	No	No	Facilities
Scope 2		**Indirect emissions**			
Electricity		Generation of purchased electricity used in buildings	Yes	Yes	Facilities
Heat & Steam		Production of heat and steam	No	No	Facilities
Scope 3		**Supply chain emissions**			
1.	**Purchased goods & services**	Production of goods & services purchased (extraction, processing, freight…)	Yes	Yes	Sourcing
2.	**Capital goods**	Production of capitalised goods purchased in the reporting year	Yes	Yes	Sourcing
3.	**Energy-related activities**	"Well to tank" emissions of purchased fuels and energy	Yes	Yes	Facilities
4.	**Upstream transportation**	3P warehouses and transportation of goods for resale	No	No	
5.	**Waste**	Emissions from the disposal and treatment of waste	Yes	Yes	Facilities
6.	**Business travel**	Emissions from business travel (except company vehicles)	Yes	Yes	Business Travel
7.	**Employee commuting**	Emissions from employee commuting between homes and work	Yes	Yes	Commuting
8.	**Upstream leased assets**	Operation of assets leased from other companies	No	No	
9.	**Downstream transportation**	Outbound transportation and downstream distribution of products sold	No	No	
10.	**Processing of sold products**	Processing of sold products by downstream companies	No	No	
11.	**Use of sold services**	Underwriting emissions	Yes	No*	
12.	**End of life**	Disposal and treatment of products at the end of their lifetime	No	No	
13.	**Downstream leased assets**	Operation of assets leased to other companies	No	No	
14.	**Franchises**	Operation of franchises not included in scope 1 and scope 2	No	No	
15.	**Investments**	Operation of investments (including equity and debt investments)	Yes	No*	

*Scope 3 cat. 11 and cat. 15 are out of scope of this engagement (Chaucer's operational footprint), but will be covered in subsequent work.

Overview of our carbon emissions from our own operations

According to the third-party calculation and estimate performed by Avieco, Chaucer emitted 14,191 tons of carbon dioxide from its own operations in 2019 across the categories of Scopes 1, 2 and 3 for the areas tested.

Like many other knowledge economy companies, our carbon footprint is dominated by Scope 3 emissions (96% of total emissions) with Scope 2 representing 3% and Scope 1 representing 1% (respectively) of the total.

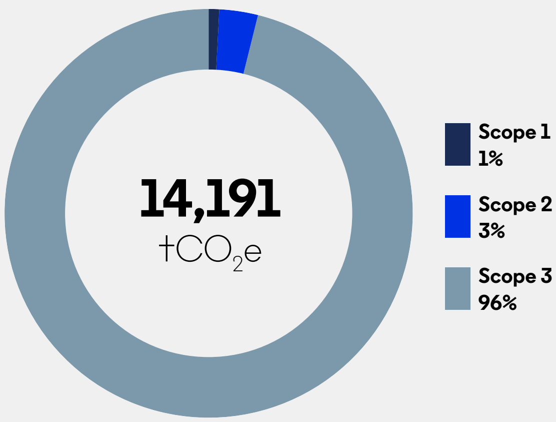
The top 4 categories driving measured emissions include:

1. Sourcing 83%
2. Business travel 10%
3. Facilities 4%
4. Employee commuting 3%

Figure 3 shows a more detailed breakdown of our total emissions and the various drivers.

Figure 3

Total Operations Emissions by Scope



Total Operations Emissions by Impact Category

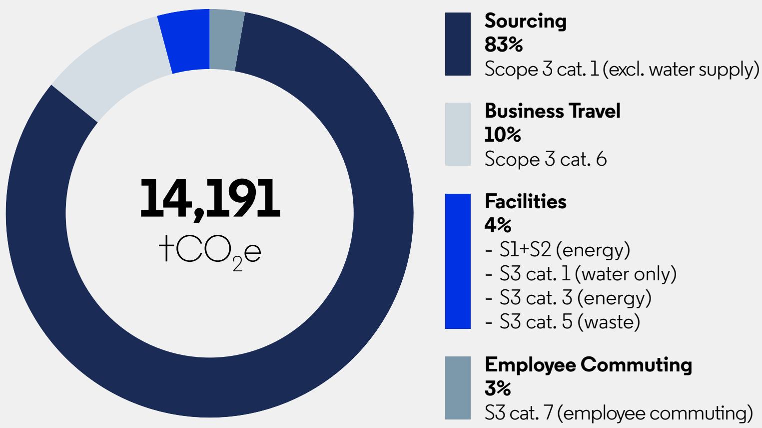


Figure 3. 11% of Chaucer's operational emissions were based on actual use data (e.g. kWh, km, kg). 3% were estimated based on extrapolations from actual use data from Chaucer's London office. 86% were calculated based on spend. Avieco's Extended Input-Output (EEIO) model matches Chaucer's spend data with a set of spend-based emissions factors. These factors reflect impacts of different sectors and markets.

Next step – Carbon neutral and net zero roadmap

We are currently building out our carbon neutral and net zero roadmap. This will include both reductions in our own, and our partners' emissions and offsetting.

Within the "reduction space" we have already addressed a number of issues. A complete list of our emissions reduction efforts is included in our previous Sustainability Report. However, some examples of changes we have implemented include:

- A new London headquarters which meets the highest sustainability standards, is fitted out to be sustainable and uses 100% renewable energy.
- We maintain a hybrid workplace, which reduces our overall carbon footprint by minimising daily travel.
- We reduced the number of in-office PC monitors from 920 to 330, which not only decreases our energy consumption but also decreases the manufacturing footprint.
- We reduced our total number of photocopiers and printers to two. This has dramatically reduced our overall paper consumption and usage, in addition to conserving energy.
- We have saved thousands of plastic bags by removing waste bins from under individual desks and installing central recycling hubs.
- We replaced our coffee and drinks machines. The new ones use 90% less energy, dispense filtered water, hence we do not require pre-bottled water, and are made with 75% recycled materials.
- We replaced all our cleaning, sanitising and toiletries with environmentally and vegan friendly products.
- We use rechargeable batteries for all IT equipment.
- We are currently working on new and additional avenues for reduction.

However, we recognise that, at least in the short term, there will be emissions we cannot reduce. Hence, in tandem with our reduction efforts, we are working on a strategy for offsetting the emissions that we are unable to reduce further at this time.

We will publish updates on our progress on this annually.

Section 2

A Balanced Scorecard For All Chaucer Counterparties

What is the Balanced Scorecard and how does it work?

Central to our mission statement is sustainability, which we consider to be the cornerstone of the long-term relationships we have with all our stakeholders. We believe that strong ESG principles should be at the centre of our decision-making. However, we also need to understand and make clear the ESG risks and impacts associated with our underwriting, investments, risk management and operations. To enable our stakeholders to know that we are doing the right thing, providing clarity needs to be a priority.

When it comes to our business partners, we are committed to working with customers and partners who genuinely want to improve. We will comply with our regulators' guidance and manage our portfolio responsibly. We are committed to helping our customers progress along their own ESG journeys, and to being enablers in their transition.

One of our recent strategic collaborations to further our ESG approach is with Moody's Analytics. Working together, we have combined their proprietary data and analytics with our Balanced Scorecard framework to deliver a robust and detailed tool with which to support our business partners' journey to become more sustainable.

The data driven scorecard measures the ESG performance of clients and business partners using 158 data points across the E, S, and G, ultimately helping our counterparties to become more sustainable.

The scorecard's design combines Chaucer's insight into counterparty risk with Moody's deep ESG and risk modelling expertise to evaluate businesses' risks and opportunities at an in-depth level. By delivering a calibrated output, driven by Moody's comprehensive ESG assessments coverage and double materiality methodology, we are able to help counterparties understand their risk both from a stakeholder and an enterprise perspective.

As noted in our inaugural Sustainability Report, we will provide updates on our overall ESG portfolio score including all of our counterparties – from underwriting to operations and investments. Below are the first portfolio results of our Balanced Scorecard.

Chaucer Group results

The figures and tables below show our ESG scores across the entire company and individually for our underwriting, operations and investment portfolios. It should be noted that the ESG scores generated at the company level and then rolled up into the portfolio-level views reflect our own view of what matters from an ESG-perspective, hence it is not directly comparable to other ESG measures or indices.

Key points include:

- Data quality measures the data availability at the company level. Where we use estimated or synthetic scores to complete the Balanced Scorecard for a company, this is reflected in the data quality score. There is a link between data quality and ESG score. Where there is no data, we have taken a prudent approach - defaulting to a zero score for data quality. Hence, it is likely that some companies score poorly not because they have poor ESG practices and approaches, but rather because they have not disclosed enough information for us to generate a score.
- Our investment portfolio has the highest data quality which reflects the maturity of this market. It was one of the early movers in the ESG space. As Chaucer only invests in publicly traded instruments, disclosure levels tend to be high and this is reflected in data quality.
- Our operations portfolio has the lowest data quality. This is largely driven by the smaller size of the companies in this portfolio. Typically, larger public companies have higher data quality scores as they tend to disclose more information.
- Moody's has information on over 75% of the counterparties across all our portfolios, which reflects the extent and quality of the Moody's database of companies.

The key here is improving disclosures so the data quality increases. This is imperative as we can only improve what we can measure. However, at this stage we cannot say what constitutes a "good" ESG score as the data quality is so poor. So, while in the future we plan to use these scores to set ESG targets, currently we are using this information to set a benchmark for us to improve data quality. We need better data from our partners to inform better decision making. Hence, we believe the priority now should be to focus on improving disclosures (and corresponding data quality) rather than setting ESG targets.

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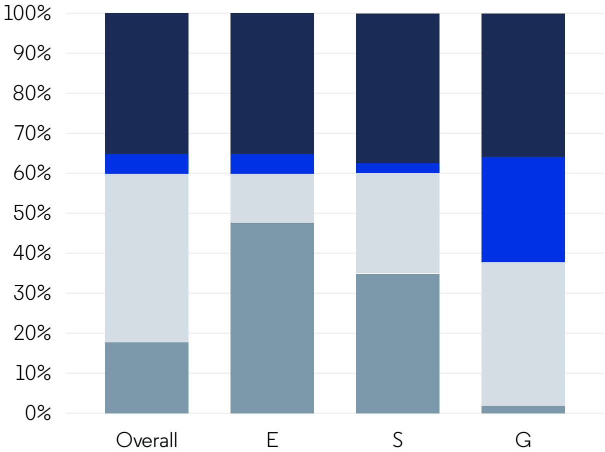
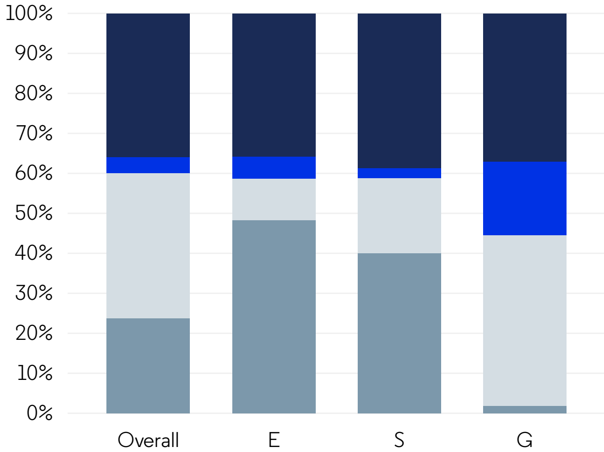
Group Q3 2022



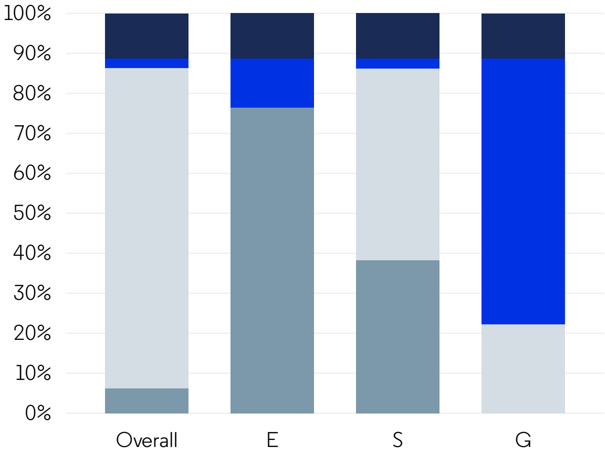
Portfolio Metric	Score
Overall Score	**36**
Entity Matched	**81.6%**
Data Quality	**10.2%**

Underwriting results Q3 2022



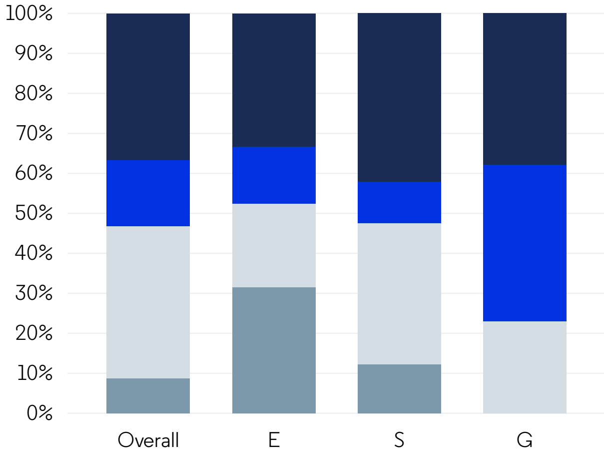
Portfolio Metric	Score
Overall Score	**32**
Entity Matched	**75.8%**
Data Quality	**6.0%**

Operations results Q3 2022



Portfolio Metric	Score
Overall Score	**33**
Entity Matched	**88.7%**
Data Quality	**4.2%**

Investment results Q3 2022



Portfolio Metric	Score
Overall Score	**48**
Entity Matched	**98.2%**
Data Quality	**28.1%**

Worst 0 - 100 Best 0-25 25-50 50-75 75-100

Sustainable Development Goals results

Chaucer has chosen to align with the UN's Sustainable Development Goals (SDGs). These are 17 linked goals which were set up in 2015 and are designed to be a "blueprint to achieve a better and more sustainable future for all" by 2030.[2] They are widely recognised in both business and the world at large as the gold standard for sustainable development criteria.

The SDGs are broad-ranging and companies that adopt them typically pick a number of goals to focus on based on the scope of their own operations. When we looked at the direct influence of our products, services, and operations, we decided to prioritise eight of the SDGs as goals that we believe we can materially influence and affect. These are detailed below:

Our prioritised SDGs include:

No poverty

End poverty in all its forms everywhere

Gender equality

Achieve gender equality and empower all women and girls

Affordable & clean energy

Ensure access to affordable, reliable, sustainable and modern energy for all

Decent work & economic growth

Promote inclusive and sustainable economic growth, full and productive employment and decent work for all

Reduced inequalities

Reduce inequality within and among countries

Sustainable cities & communities

Make cities and human settlements inclusive, safe, resilient and sustainable

Responsible consumption & production

Ensure sustainable consumption and production patterns

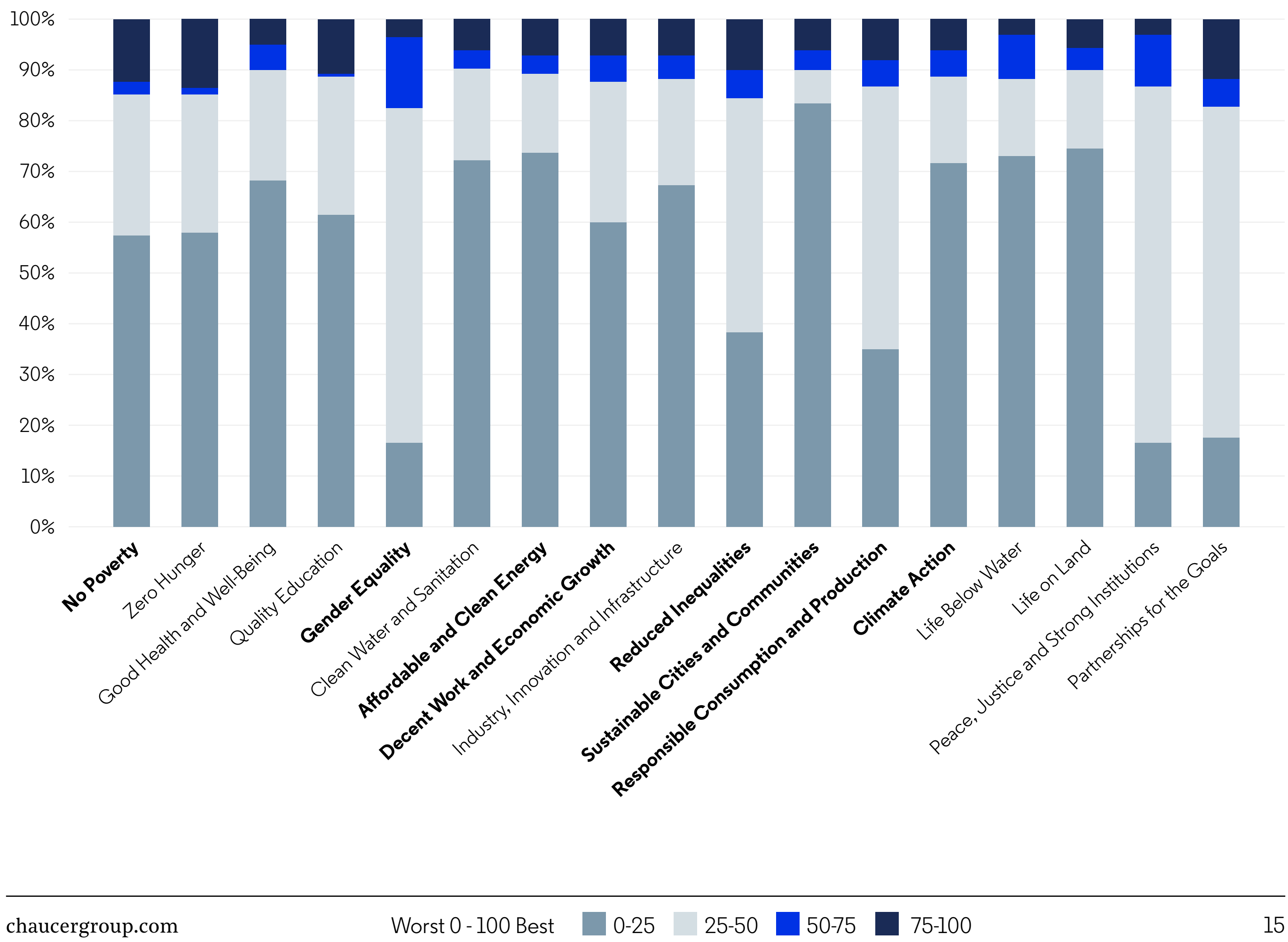
Climate action

Take urgent action to combat climate change and its impacts

[2] United Nations Sustainable Development Goals. https://sdgs.un.org/goals

All of the data points in our Balanced Scorecard map back to the SDGs. We will continue to track our progress against our prioritised SDGs – aiming first to improve the overall data quality and then the scores against each of the individual SDGs.

Sustainable development goals results 22Q3



Next step – More and better data

If we want to truly deliver our ESG vision of "supporting the transition," we need to take a data driven approach. We need more and better data to enable us to make better decisions and to ensure that our decisions are having the desired impact. True change should be measurable - and claims of progress need to be backed up by auditable data.

This is a call to action, not just for our industry, but for all companies across all industries. At this stage, our scorecard does not impact quote turnaround times, pricing terms, or policy conditions and we do not ask our partners to fill out ESG questionnaires. The Moody's solution is an automated one. Once a company discloses the information (either via public disclosure or directly to Moody's), the solution automatically picks up the information and includes it in the scorecard. The full list of disclosures we consider is outlined in our Balanced Scorecard (published in our Sustainability Report); however, examples of information a company might choose to disclose include GHG emissions, employee health and safety metrics and working conditions standards, among others.

Why should companies disclose more?

- External (especially regulatory) pressures will increasingly mean we all have to disclose more information.
- Companies with better ESG policies will benefit by disclosing more. As our world increasingly rewards more transparent organisations, those who disclose more information are best placed to capitalise on ESG opportunities and be "rewarded" for their better ESG practices and disclosures.
- We need data to drive measurable, impactful change.

Where we go from here

We view sustainability as a journey and a process, not simply a destination. We have a number of goals we plan to reach in the short, medium and long term – and we want all of our stakeholders – ranging from the entities we underwrite to our people, to the communities in which we operate – to hold us accountable.

Our next sustainability report will be published in 2023. In this, we will detail progress on our ESG approach and Balanced Scorecard and publish updates on our net zero and carbon neutral roadmap. Additionally, as we have noted multiple times throughout this report, improving disclosures is paramount to truly creating a more sustainable future. As such, we will be increasing our own levels of disclosure – which will be highlighted in our annual sustainability report.