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tawuniya

Responsible Investment Policy

CIO Message



Dear Valued Stakeholders,

We are pleased to present our *Responsible Investment Policy*, a testament to Tawuniya's commitment to ethical and sustainable practices. As a leading insurance provider in Saudi Arabia, Tawuniya is uniquely positioned to shape a sustainable future while upholding our fiduciary responsibilities to you, our esteemed stakeholders.

This investment strategy transcends mere financial gains; it is fundamentally anchored in our dedication to harmonizing our initiatives with the tenets of environmental stewardship, social responsibility, and sound governance. This policy is aligned with Vision 2030 and the Sustainable Development Goals (SDGs), demonstrating our commitment to fostering a vibrant society, a thriving economy, and an ambitious nation.

Sustainability serves as a fundamental principle and a key driver of long-term value creation. By integrating ESG factors into investment decisions, we aim to protect and enhance the financial value of our assets, all while contributing to societal well-being and environmental preservation. A sustainable society and economy are essential for the health and stability of the markets in which we invest, as well as for the ongoing prosperity of the communities we serve.

This policy establishes definitive expectations for the businesses and external managers with whom we collaborate. In light of both regional and global challenges, we remain committed to prioritizing collaboration and engagement rather than exclusion. This strategy allows us to collaborate effectively with organizations to enhance their ESG performance, tackle climate-related risks, and capitalize on new opportunities in the transition to a low-carbon, resilient economy.

The path to sustainability is intricate, and as an Islamic insurer, our commitment to ethical and responsible practices strengthens our resolve. Through our strategic position in the financial ecosystem, we seek to drive meaningful change, unlock economic opportunities, and enable businesses and communities to flourish in an ever-evolving landscape.

As we move forward, your participation is invaluable in fostering a sustainable future for generations to come. Let us continue our efforts to align financial performance with positive societal and environmental outcomes, ensuring that our actions today create a lasting legacy for the future.

Yours Sincerely,

Fahad S Bin Muammar
Chief Investment Officer

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1 Introduction

We are committed to acting in the best interests of our beneficiaries while making a positive contribution to society, especially in the region in which we operate.

- As a multi-line insurance provider, we recognize that our investments may impact the societies where our beneficiaries live and work; therefore, our responsible investment activities aim to align financial performance with positive social and environmental outcomes.
- We believe that a sustainable society and economy are critical to the health and stability of the markets in which we invest. When properly managed, ESG factors can positively influence long-term market stability, which in turn supports the financial security of our beneficiaries and the broader community.

As an Islamic insurer, we are committed to ensuring that our investment approach is guided by Shariah principles. These principles shape our responsible investment policy and inform key exclusions, ensuring our investments align with ethical standards. We define responsible investment as the integration of financially material environmental, social, and corporate governance (ESG) factors into our investment and ownership practices. We see responsible investing as the driver of the long-term value of the assets we invest in. It adds a layer of insight beyond traditional financial information, enabling us to assess how a company's operations may be impacted in the long-term thus affecting its financial performance.

We believe that integrating environmental, social, and governance factors is important as part of our fiduciary duty towards our stakeholders for several reasons:



Financially material ESG factors can have a positive impact on investment portfolios over time through improving risk-adjusted returns.



Strong corporate governance practices and effective management of environmental and social risks may strengthen downside risk protection for stakeholders.



ESG factors can be financially material across all asset classes and should therefore be part of the initial assessment and ongoing monitoring of investments.



Achieving sustainable long-term financial returns underpin the ability to pay insurance claims and thus to offer competitive products to our clients.



Strong stewardship practices encourage companies to make their businesses more sustainable and hence improve their ability to deliver sustained financial returns.

1 Introduction continued

We expect the businesses in which we invest to uphold high standards of governance, environmental stewardship, and social responsibility. These expectations are fully aligned with our fiduciary duty to our beneficiaries. By integrating environmental, social, and governance (ESG) factors into our investment process, we aim to protect and enhance long-term financial value while contributing to a sustainable society.

We have developed an asset allocation process that matches our liabilities. We recognize that whilst sustainability issues often materialize over the long term, they can have an impact in the short and medium term on financial markets as they anticipate future changes. We are therefore committed to integrating ESG factors into our investment decisions to ensure that our portfolios remain resilient across the spectrum of time horizons. This approach allows us to manage investment risks efficiently while positioning our portfolios for future success by addressing long-term risks and opportunities.

We operate with a mix of internal and external investment managers, typically leveraging the scale of global managers for investments outside the local market. Whilst we do not control day-to-day management by our external managers, we assess their alignment with our culture and philosophy, as well as the consistency of responsible investment approach, and thus we anticipate they will broadly align to this policy.

2 Governance and Scope

This policy is an instructive element of the **Statement of Investment Principles** and applies to all general accounts of Tawuniya, covering both internally and externally managed assets.

The policy was developed by Tawuniya's investment team, supervised by the Chief Investment Officer (CIO), who is also responsible for the ongoing review of the policy on at least an annual basis and proposing any appropriate revisions.

The policy was reviewed and approved by the Investment Committee to ensure alignment with our fiduciary duties and responsible investment principles.

Our internal investment team is responsible for discharging this policy and integrating **environmental, social, and governance (ESG)** considerations into investment decisions and for **executing our stewardship program.** This policy outlines our **responsible investment approach,** including our commitment to long-term value creation, ESG integration, and active ownership practices.

We expect our external managers to adopt an investment and stewardship approach consistent with this policy to integrate financially material ESG factors into their investment processes and maintain a stewardship program. Their alignment with this policy is considered during the appointment process and ongoing manager reviews. Tawuniya also expects to receive regular ESG reporting from external managers demonstrating alignment with Tawuniya's sustainability goals.

3 Responsible Investment Approach

Our responsible investment principles and objectives were developed using a conceptual framework based on the United Nations Sustainable Development Goals (SDGs) and Saudi Arabia Vision 2030, alongside our fiduciary commitment to our clients.

Central to our approach are the three core themes of Saudi Vision 2030:

1. **A Vibrant Society**
2. **A Thriving Economy**
3. **An Ambitious Nation**

as well as specific Sustainable Development Goals (SDGs), which we believe are the most relevant to our investment portfolio:



SDG 3: Good Health and Well-Being



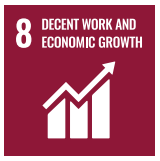
SDG 9: Industry, Innovation, and Infrastructure



SDG 6: Clean Water and Sanitation



SDG 11: Sustainable Cities and Communities



SDG 8: Decent Work and Economic Growth



SDG 13: Climate Action

We aim to support economic development while ensuring that our investments promote sustainable and responsible business practices, contributing to long-term economic and social development in Saudi Arabia. We also support SDG 17—Global Partnership—by adopting this framework and thus supporting the contribution of the financial sector to achieving the sustainable development goals.

Our opportunity and responsibility as a leading regional insurer

As a leading insurance company in the Kingdom, our unique position within the financial ecosystem allows us to play a vital role in supporting sustainable economic growth. Insurance inherently de-risks both businesses and economies, fostering stability—a core aspect of our responsible investment strategy. By extending this de-risking function, we not only support economic opportunities but also create a robust foundation for sustainable development across societal and economic sectors.

Our responsible investment approach aligns with the overarching and strategic goals of Saudi Vision 2030, which prioritize:

Sustainable Growth and Economic Diversification: We support Vision 2030's goal to unlock the potential of non-oil sectors, fostering a diversified economy that strengthens the private sector, SMEs, and micro-enterprises. We believe improved diversification contributes to lower overall long-term financial risk and thus benefits our portfolios.

3 Responsible Investment Approach continued

Our opportunity and responsibility as a leading regional insurer continued

Environmental Sustainability: We actively work with investee companies to reduce environmental impacts, minimize pollution, safeguard natural landscapes, and address climate-related risks, thereby aligning with Saudi Vision 2030's environmental sustainability objectives.

Human Capital Development: As part of our commitment to human capital development, we support companies that align their practices with the evolving needs of the labor market, ensuring that investments contribute to enhancing skills and promoting job creation.

Health and Well-Being: As an insurer, the health and well-being of our clients is important to us. There are also opportunities for our investment decisions to support health and well-being, in line with SDG 3 and Vision 2030's emphasis on promoting healthy lifestyles and reducing health threats. We believe that companies focusing on responding to evolving consumer demands for improved health and well-being will be better positioned in the long term to grow their business.

Social Responsibility: We believe that strengthening social responsibility is key to achieving long-term sustainability. We promote responsible business conduct and seek to work closely with investee companies to enhance their social impact where possible. We believe maintaining a reputation for responsible business conduct strengthens a company's brand and thus their opportunity to attract and retain customers.

One of the key overarching goals of Vision 2030 is job creation and empowerment through unlocking the potential of the private sector, SMEs, and micro-enterprises. Our responsible investment strategy aims to support these sectors by encouraging innovation, growth, and sustainable business practices. This empowers businesses to create jobs, contribute to local economies, and enhance the quality of life for Saudi citizens whilst improving risk-adjusted returns on our portfolio of investments.

Unique challenges of developing economies

We recognize the particular challenges associated with integrating environmental, social, and governance (ESG) factors in a developing economy. Approaches to disclosure will continue to develop, as well as the integration of sustainability into corporate objectives and decision-making. As one of the leading insurance companies in the region, we have a unique ability to encourage change, and we are committed to playing a leading role in enabling the adoption of sound ESG practices.

As investors, we benefit from the increased take-up of transparent, consistent disclosure standards globally, which enables us to make more informed decisions and to understand the range of risks and opportunities our investments are exposed to. Accordingly, we generally support the adoption of sustainability reporting standards by companies.

In general, we do not exclude companies based on apparent low ESG performance; our objective is to actively engage with investee companies to encourage the adoption of good governance, reduce environmental impacts, and improve overall ESG performance. We believe this is the most effective approach to encouraging change. We are always mindful of our fiduciary duty, and if any potential investment does not meet our financial risk and reward expectations it will be deemed unsuitable. We avoid investing in particular sectors or activities that are contradictory to our beliefs as, outlined elsewhere in this document.

3 Responsible Investment Approach continued

Asset allocation and manager implementation

We invest in various asset classes to meet our investment objectives as determined by our strategic asset allocation decisions. These assets are managed by both local and global asset managers. Our contribution towards real outcomes is therefore continued commitment in driving responsible investment exercised by the investment mandates with our appointed asset managers. Our investment strategy informs the asset managers' investment decisions and the choice of investee companies selected, which in turn drives real-world outcomes.

Application to asset classes and individual instruments

Whilst we have adopted a responsible approach to investing as laid out in this document, we recognise there are some instruments for which integrating ESG factors may not be appropriate due to the nature of the investment, lack of sufficient disclosure, or maturity profile. This includes, but is not limited to:

- Cash and other short-term investments such as money-market instruments or money-market (cash) funds.
- Passive investments that replicate an index whose constituents are not controlled by the investment manager.
- Derivative instruments based on a broad index.

In relation to index-based investments described above, we consider whether alternative passive products tracking indices more aligned to our policies (such as ESG indices) are available and whether such products offer a similar risk-return opportunity at a similar cost when making our investment.

We have established a comprehensive framework to integrate environmental, social, and governance (ESG) factors into our investment decision-making process. This framework ensures that sustainability considerations are systematically embedded across all stages of investment analysis and portfolio management. The key elements of our approach include:

- ESG principles
- Exclusion
- Stewardship
- External managers selection, appointment, and monitoring

4 ESG Principles

As we use a range of internal and external managers to manage our assets, we have established a set of high-level principles to guide investment teams in identifying, assessing, and incorporating ESG risks and opportunities into their decision-making process. These principles provide guidance on our position on specific financially material ESG issues in order to provide greater clarity about our expectations to investee business, external managers, and other stakeholders.

We do not expect our investment managers to directly adhere precisely to these high-level principles but look for general alignment with them during the appointment process and ongoing reviews. Equally, when we invest in external funds, we do not control the parameters or processes of those funds, but we take these principles into account alongside the investment opportunity a fund presents when making an investment.

ESG integration: We expect to see environmental, social, and governance issues that are financially material being identified and assessed as an integral part of the investment processes.

Environmental: We define environmental issues as those relating to preserving the quality of the natural environment of our planet and the natural systems living on it. We expect investors to consider how issuers interact with and impact the environment and to conduct appropriate stewardship to encourage positive action by companies in which we invest.

Climate Change

We recognize many academic studies that evidence the profound impact that climate change poses to the global economy and our society. We also recognize that the impact of climate change has already been felt and that developing solutions to the challenges of adaptation is important. As we make investments across markets globally, we believe this systemic risk is material to the value of our assets. As part of our responsible investment strategy, we therefore encourage active engagement with our investee companies to help them address climate-related risks, reduce carbon emissions, and identify opportunities related to addressing climate change. By fostering this collaborative approach, we seek to mitigate risks while maximizing long-term benefits for our beneficiaries.

Our approach to climate change does not principally rely on exclusions but rather on constructive engagement with companies. We encourage companies to disclose their assessment of their contribution to and impact from climate change, as well as any business opportunities to offer products or services to mitigate climate change. We prefer companies to provide this disclosure in alignment with international standards, facilitating comparability and easier analysis.

As investors, metrics which help us understand the expected financial impact or risk, such as stress tests and scenario analysis, can be particularly helpful. This then enables companies to measure and manage their impact, which then triggers the adoption of sustainable business practices and a greater contribution to a low-carbon economy. Through this process, we aim to promote climate risk awareness and readiness within companies and the broader private sector.

As part of a developing economy, we are committed to balancing growth with sustainability. Our long-term vision is to align our portfolio with the Kingdom of Saudi Arabia's ambitious goal of achieving net zero emissions by 2060.

Given our geographic location, we are particularly aware of the challenges of adaptation to climate risks, and through our investment and engagement efforts, we hope to encourage the private sector towards greater resilience and preparedness in the face of climate change and to encourage investors to promote action on adaptation and the ongoing development of products and services to enable adaptation.

4 ESG Principles continued



Biodiversity loss

We recognize the critical role of nature in supporting life on the planet, as well as providing the essential underpinning of our economic system, with more than half of the global economy estimated to be moderately or highly dependent on nature. Biodiversity loss is far more challenging to quantify than climate change, as it is inherently local, not global, and as a multi-dimensional issue is inherently more complex to assess, and standards and metrics continue to evolve. Whilst data availability on companies' impact on nature and their dependency on ecosystem services is therefore more limited than data on climate change, this is a fast-developing area.

We expect investment managers to consider nature loss in their investment process and to be evolving their investment process to take this into account in decision-making, particularly where companies are reasonably likely to have either a high impact or a high dependency on nature. We support the ongoing development of global standards, and our stewardship activities encourage adoption by companies and greater disclosure. We will review the opportunities for strengthening our approach as data and analysis become more widely available.



Water stewardship

The supply and availability of fresh water are crucial to life on this planet and underpin all economies globally. As the global demand for fresh and dependable sources of water increases, driven largely by population growth, preserving the supply of reliable freshwater becomes ever more challenging. The United Nations estimates that more than 50% of the world's cities and more than 75% of all irrigated land experience water shortages on a recurring basis.

This also presents a clear financial risk both at a systemic level, to global economies, and at a specific company level, where water scarcity may result in higher costs and thus weaker financial performance. We actively encourage companies to adopt effective water stewardship practices. We also encourage companies to align their businesses' values with internationally recognized water standards and norms, such as those articulated in Sustainable Development Goal 6, "Clean water and sanitation for all."

Social: We define social issues as those relating to the rights, wellbeing, and interests of people and communities. Within this, we include how issuers interact with their employees, customers, and communities.



Human Capital Management

We believe that investee companies hold a responsibility to ensure the well-being and development of their employees. Healthy labor relations foster a harmonious working environment, improve operational efficiency, and positively contribute to the overall development of the enterprise. Providing and maintaining a safe working environment serves both to protect companies from reputational risk and to avoid significant costs that can arise from major accidents.

Training and developing employee skills is a key source of value creation and a competitive advantage for any company. We encourage our investee companies to comply with labor laws and to adopt best practices in employee training and development, recognizing that investing in human capital is crucial for long-term success and sustainable growth.



Provision of safe and healthy products

We believe companies should take a holistic life-cycle approach to the products they offer, from the way that they are developed and produced across the supply chain, the impact of their use, and the way they are recycled or otherwise disposed of. Unsafe products can have a major reputational and financial impact, and with consumers increasingly focused on health and well-being, more healthy products may contribute to overall revenue growth. Products that leverage recycled materials, are produced with low impact, and can be largely recycled may offer longer-term competitive advantages both in the cost of production and having a lower environmental impact.

4 ESG Principles continued



Data Privacy and Security

We recognize the growing importance of data privacy and security in today's digital economy. Protecting sensitive information is critical to maintaining trust and ensuring the long-term sustainability of businesses. As part of our responsible investment approach, we expect our investee companies to implement robust data privacy and security measures that comply with relevant regulations and best practices globally.

We encourage investee companies to adopt best practices for safeguarding customer, employee, and partner data. This includes ensuring transparent data management, securing digital infrastructures against breaches, and responding promptly to any security incidents. By prioritizing data protection, companies not only mitigate risks but also strengthen their reputation and long-term value creation.

Governance: We define governance issues as relating to corporate policies, the structuring and working order of governing bodies, shareholder rights, control environment, standards of conduct, and business development. We believe these issues are of material financial importance to investors, given they shape the culture and the control environment in a company, and thus provide a more effective framework in which companies can respond to predicable or unforeseen challenges to their business.



Corporate Governance

Corporate governance, as defined by the Organization for Economic Cooperation and Development (OECD), is the structure and systems through which companies are directed, their objectives are set, and the means of achieving and monitoring those objectives are determined.

We believe that a sound corporate governance structure is essential for creating long-term shareholder value. The board of directors and senior management are accountable to investors for protecting and generating value over the long term. Effective execution of this crucial task requires careful board composition to ensure a range of insights and perspectives and a balance between executive and independent directors. We look to international standards such as the ICGN Global Governance Principles when considering the quality of governance at a company.

We expect the board of directors of investee companies to oversee and monitor the effectiveness of the company's governance of environmental, social, and business ethics-related issues and risks to protect shareholder rights. We also expect them to have a process to identify and manage conflicts of interest. We engage with investee companies and use our vote on numerous issues, including shareholder rights, board compensation, remuneration, and risk management.



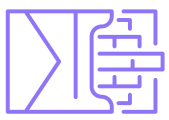
Corruption

All forms of corrupt business practices, including extortion and bribery, can expose a company to significant reputational and financial risk. Corruption may lead to significant business-related costs and market inefficiency and hinder economic, political, and social development. We expect companies to engender a strong corporate culture, instilling ethical behavior reinforced by appropriate training. We expect companies to take a proactive approach towards corruption and responsible payments and ensure that adequate oversight measures are implemented and staff are encouraged and enabled to report concerns appropriately.

5 Exclusions

Our investment beliefs and goals are to promote a sustainable society and engage with our investee companies on mitigating material risks associated with environmental, social, and governance issues. However, there are certain sectors and activities that we believe cause a negative environmental and/or social impact on society.

We apply the restrictions on investments below where assets are managed by our internal fund managers or where external fund managers undertake a dedicated mandate on our behalf. Where we invest in funds managed by external managers, we are unable to instruct the investment managers to make exclusions on behalf of all their clients, so the restrictions below do not apply. However, when selecting funds, we do consider the restrictions below, as well as the investment potential of possible fund investments, when making investment decisions.



Tobacco

Tobacco consumption is a major contributor to long-term non-communicable diseases and presents a significant global health challenge. According to the World Health Organization (WHO), tobacco use results in over 6 million deaths each year, underscoring its severe impact on public health.

As a responsible health insurance provider committed to promoting healthier lifestyles, we believe that the adverse effects of tobacco are incompatible with our values and mission. The production and sale of tobacco products directly undermine our efforts to enhance health outcomes and wellness.

Moreover, the harmful impact of tobacco use is fundamentally at odds with our Islamic and ethical beliefs, which prioritize the protection of human life and health. This exclusion also aligns with Saudi Arabia Vision 2030, particularly the objective to "strengthen prevention against health threats," and supports Sustainable Development Goal (SDG) 3, which promotes "Good Health and Well-Being."

In line with these principles, we are committed to the exclusion of the tobacco manufacturing industry from our investment universe. This exclusion applies to all companies involved in the production, marketing, and sale of tobacco products. We enforce a zero-tolerance policy with respect to any revenue generated from tobacco manufacturing. Any company deriving revenue from the manufacturing of tobacco products, regardless of the proportion of total revenue, will be excluded from our investments.



Alcohol

Alcohol consumption is associated with risks of developing noncommunicable diseases such as liver diseases, heart diseases, and different types of cancer, as well as mental health and behavioral conditions such as depression, anxiety, and alcohol use disorders.

The use of alcohol is fundamentally at odds with our Islamic and ethical beliefs, which prioritize the protection of human life and health. This exclusion also aligns with Saudi Arabia Vision 2030, particularly the strategic objectives to "strengthen prevention against health threats" and "Enhance the nation's immunity towards drug abuse," and supports SDG 3, which promotes "Good Health and Well-Being" and is in alignment with the WHO Global Strategy to "Reduce the Harmful Use of Alcohol".

We are committed to the exclusion of the alcohol industry from our investment universe. This exclusion applies to all companies involved in the production, marketing, and sale of alcohol products. We enforce a zero-tolerance policy with respect to any revenue generated from the alcohol industry. Any company deriving revenue from the alcohol industry, regardless of the proportion of total revenue, will be excluded from our investment.

5 Exclusions continued



Betting and Gambling

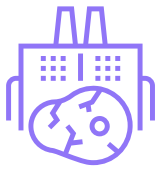
Gambling generally consists of games in which the possibility of winning or losing is decisively conditioned by chance, so that they do not depend exclusively on the player's skill. Gambling has an economic dimension that involves running the risk of winning and losing depending on the outcome. As a sensitive activity, it is mainly linked to social challenges due to its connection with gambling addiction, which can result in material losses for gamblers, and challenges relating to preventing corruption, as well as money laundering and concealment practices.

The practice of gambling is fundamentally at odds with our Islamic and ethical beliefs; therefore, we are committed to the exclusion of the betting and gambling industry from our investment universe. This exclusion applies to all companies involved in the betting and gambling industry. We enforce a zero-tolerance policy with respect to any revenue generated from betting and gambling industry. Any company deriving revenue from betting and gambling industry, regardless of the proportion of total revenue, will be excluded from our investment.



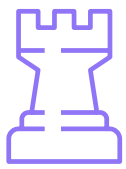
Adult Entertainment

The adult entertainment industry poses a significant ethical risk and high-risk human rights violation. We do not wish to be associated with any sectors or activities with human rights violation; additionally, the adult entertainment industry is fundamentally at odds with our Islamic and ethical beliefs; therefore, we are committed to the exclusion of the adult entertainment industry from our investment universe. This exclusion applies to all companies involved in the adult entertainment industry. We enforce a zero-tolerance policy with respect to any revenue generated from the adult entertainment industry. Any company deriving revenue from the adult entertainment industry, regardless of the proportion of total revenue, will be excluded from our investment.



Pork Production

We define the pork production industry as pig farming, slaughtering, processing, and distribution of pork products. The consumption of pork is prohibited in Islamic beliefs, and we are committed to the exclusion of the pork production industry from our investment universe. This exclusion applies to all companies involved in the pork production industry. We enforce a zero-tolerance policy with respect to any revenue generated from the pork production industry. Any company deriving revenue from the pork production industry, regardless of the proportion of total revenue, will be excluded from our investment.



Defense

The defense industry plays a critical role in supporting national and regional security policies, providing essential tools for sovereign states to protect themselves. While we recognize the legitimate right of states to arm themselves, certain weapons have been deemed unacceptable under international conventions such as the Ottawa Convention (prohibiting anti-personnel landmines), the Oslo Convention (banning cluster munitions), and the Non-Proliferation Treaty (seeking to prevent nuclear weapon proliferation).

Nonetheless, we have chosen to exclude the defense industry due to the risk it poses to human rights violations and the ethical concerns associated with its activities. We believe that involvement in the defense industry is fundamentally at odds with our ethical beliefs and our commitment to responsible investment.

We are committed to the exclusion of the defense industry from our investment universe. This exclusion applies to all companies involved in the production, marketing, and sale of defense products. We enforce a zero-tolerance policy with respect to any revenue generated from the defense industry. Any company deriving revenue from the defense industry, regardless of the proportion of total revenue will be excluded from our investment.

5 Exclusions continued

Thermal Coal

Thermal coal, as a significant contributor to carbon emissions and climate change, poses substantial environmental and financial risks in the long term. We believe that investing in high-emission industries like thermal coal is not aligned with our responsible investment strategy. In addition, we believe as long-term investors that thermal coal may not be an economic fuel source in the long term and hence could become an investment risk.

We are committed to the exclusion of companies that have a substantial reliance on thermal coal from our investment universe. This exclusion applies to companies that generate more than 50% of their revenue from the extraction, production, or sale of thermal coal. As we are working on aligning the portfolio with the Kingdom 2060 Net Zero commitment, we will introduce new thresholds in the coming years. We believe this step is vital in mitigating our exposure to climate risks while supporting the transition to cleaner energy alternatives.

Derivatives and Speculative Activity

Derivatives can serve as useful tools for hedging risks and efficient portfolio management, as they offer a low-cost and comparatively liquid way of managing risk or moving between asset classes. Accordingly, we support the use of derivatives when they are used for these purposes, provided the investment manager has adequate systems and controls in place to monitor the resulting exposures and manage liquidity and other risks, as well as any margin requirements.

However, there are also potential risks associated with derivatives, particularly when they are used for speculative activities such as establishing short-term positions or artificial exposures, frequently with the use of leverage. Speculative activities often promote excessive risk-taking and market volatility and can lead to destabilizing economic outcomes. Speculative activities can undermine market integrity, distort pricing, and contribute to financial instability.

Speculative trading therefore does not align with our responsible investment beliefs, and therefore we are committed to excluding derivatives and speculative activities from our internal investment activities. As part of our review of external managers, we consider the extent of their use of derivatives, whether they have the staffing and systems to support them, and the nature of this use, which forms part of our decision-making process.

Stock Lending

As part of our responsible investment objectives, we aim to enable the adoption of sound ESG practices by actively engaging with our investee companies. Our focus is on encouraging the implementation of good governance, reducing environmental impact, and improving overall ESG performance. By fostering long-term, sustainable business practices, we contribute to creating value for all stakeholders.

We believe that stock lending is not aligned with our long-term, responsible investment philosophy. It facilitates short selling, which promotes short-termism and may undermine our engagement efforts. When securities are lent, ownership is temporarily transferred to the borrower, which can hinder our ability to exercise stewardship, including voting rights and active engagement with investee companies. In addition, the borrower may not have the same long-term perspective of the interests of the company. This could limit our influence in promoting responsible business practices and achieving our ESG objectives.

Where we invest in third-party funds, we do not directly control stock lending decisions, but we consider their approach to stock lending as part of our due diligence. Where stock lending does take place at funds, we consider if the fund recalls stock when needed as consistent with the investment managers' approach to responsible investment.

6 Stewardship

At Tawuniya, we recognize that effective stewardship is integral to good, responsible investment practices and is consistent with our fiduciary duty. Stewardship activities are essential for protecting and enhancing the long-term value of our investments and promoting sustainable practices that contribute to the overall stability of financial markets. Our stewardship approach aims to encourage positive change in ESG practices within investee companies while fostering resilient markets that support sustainable economic growth.

Our stewardship efforts are designed to:

- Promote sound corporate governance and transparency within investee companies.
- Encourage effective management of environmental and social risks that could materially impact long term performance.
- Enhancing the alignment of our portfolios with long-term sustainability objectives, particularly those linked to Saudi Vision 2030 and the sustainable development goals (SDGs).

We undertake a range of engagement activities both directly ourselves with investee companies and through external managers in order to encourage companies to improve their environmental, social and governance practices.

Our engagement with investee companies falls into three main categories:

1. **Routine engagement** – ongoing discussions with management teams to understand their business and to discuss relevant issues, which may include fundamental and ESG issues.
2. **Thematic engagement** – discussions linked to one or more specific ESG issues typically conducted across a number of companies.
3. **One-off engagements** – triggered by external incidents requiring discussion with a company or by "red flags" being highlighted and warranting further investigation.

Thematic engagements

Thematic engagements may be undertaken either by Tawuniya or our external managers alone or in collaboration with other asset owners. Sometimes it is more efficient to engage with a company directly on a specific issue or where we believe we have particular insights to discuss with them, including those driven by our regional expertise. Collaborative engagements can be an efficient way for multiple investors working together to encourage action and use the power of their collective voice to amplify their message. Collaborative engagements can take place within the framework of industry initiatives such as ISSB or PRI or through national initiatives. Tawuniya internal team thematic engagement typically concerns issues under Tawuniya ESG principles.

One-off engagement

These engagements are triggered by observed apparent norm breaches, red flags, or other serious negative news flows. The engagement particularly allows us to investigate the situation further with the issuer and identify if the issue is genuinely one of concern to us.

Proxy voting

In tandem with our direct engagement with companies, proxy voting is undertaken at as many AGMs as practically possible, prioritizing votes related to the ESG principles of Tawuniya. In general, this means expecting that companies:

1. Act in the long-term interest of shareholders.
2. Safeguard the rights of all shareholders.
3. Ensure an efficient and independent board structure.
4. Align incentive structures for employees with the long-term interest of shareholders.
5. Disclose information to the public in a timely, accurate, and adequate manner.
6. Ensure high social, environmental, and ethical standards and accountability.

6 Stewardship continued

Political engagement

Generally, we do not participate in activities that would reasonably be considered as political engagement. Our activities focus solely on issues affecting our investments and are not intended to support any specific political ideology or party.

However, our investments may be affected positively or negatively by policy and regulatory action, and we believe that providing our unique perspective can be helpful to the formulation of policy from time to time. By articulating our view as investors with a long-term interest in the success of the economy and our investments, we believe that we can be supportive to policymakers and regulators because we have a shared interest in the success of the economy and financial system. Therefore, we believe it is important to participate in providing feedback on regulations and, where appropriate, expressing support to policymakers, in particular during stakeholder engagement initiated by policymakers.

It can also be more efficient for us to express our views by signing or co-signing letters initiated by investor groups aimed at responding to particular policy or regulatory initiatives, which can also be a more efficient way for regulators and policymakers to receive a consolidated perspective from a range of stakeholders.

We focus our stewardship efforts on the companies and stakeholders where we believe we can have the most significant impact. Key criteria for prioritizing our engagement include:

- The materiality of ESG issues for the company's long-term financial performance.
- The significance of our shareholding and our potential influence on the company.
- The company's alignment with Saudi Vision 2030 and our responsible investment objectives.
- The company's historical responsiveness to engagement efforts or proxy voting outcomes.
- The emergence of information leading to concerns about any aspects of the company's business strategy, including both fundamental and ESG-related issues.

Approach to escalation in stewardship

In instances where investee companies fail to make sufficient progress on material ESG issues or fail to respond adequately to our engagement efforts, we employ a formal escalation process which may include:

- Pivoting to a collaborative engagement: We believe that joining forces with other investors in engaging with companies can be an effective way to achieve successful engagement outcomes. While we also engage individually or delegate our external managers to conduct engagement on our behalf, we see collaborative engagements as an important part of our active ownership work. This allows us to share views with other industry players and scale up the impact of our engagement.
- Letters to CEO or Board of Directors: To make our voice heard at the highest levels in a company and to underline our expectations on key issues, we may send letters to either the CEO, the Board Chair, Independent Directors, or to individual members of the Board, such as those chairing specific committees, either individually or together with other investors. These letters can be open or submitted with confidence.
- Annual General Meeting:

  AGM: We can use our voting rights as well as the overall meeting to influence the company, escalate an engagement or lay out our support for or opposition to specific issues and votable items.

  Proxy Voting: At the AGM, we can use our voting rights and power to support or vote against directors, items, shareholder, and management proposals where permissible by law. We can thus use our voting rights and power to influence companies on certain matters and to support and escalate our engagements. In doing so, typically we identify how we can most effectively express our views whilst not adversely affecting the financial prospects of the company.

- Filing of shareholder resolutions: We may file or co-file shareholder resolutions with other investors to put an expected change of behavior or disclosure up for vote at a company.
- We reserve the right to divest from any issuer or investee that fails to adequately respond to our engagement efforts, ensuring our investments remain aligned with our responsible investment principles.

7 External Managers Selection, Appointment and Monitoring

When appointing external managers, our core expectation is cultural alignment between their firm's responsible investment approach and our own. We expect external managers to have adopted an investment and stewardship approach that is consistent with this policy, and in particular to integrate financially material ESG factors into their investment processes and to maintain an effective stewardship program.

We evaluate our external managers in terms of responsible investment practice both at appointment and during ongoing review, using a number of criteria. By doing this, we are seeking to understand the extent to which responsible investment practices are genuinely implemented across the firm. We identify many of these practices throughout this document and consolidate specific issues below.

For selecting and appointing asset managers, amongst other issues, we consider:

1. The extent to which responsible investment is embedded in their investment and ownership practices.
2. Their commitment to international standards, industry guidelines, and reporting frameworks or initiatives that promote responsible investment practices, including stewardship codes. Our expectation is that asset managers conduct their responsible investment practices in a manner that is aligned with the UN-backed Principles for Responsible Investment.
3. The extent to which the manager reports transparently on their responsible investment practices, including investment, stewardship, and voting, as well as evidencing their alignment to the various initiatives to which they are committed.
4. Whether there is sufficiently senior oversight and adequate staffing for the implementation of ESG incorporation.
5. Whether the asset manager has access to sufficient research and analysis as well as adequate resources and technology to analyze ESG factors.
6. Where the investment manager has a dedicated 'ESG team,' we seek to understand how they interact effectively with portfolio managers and expect to see a cultural alignment across the firm in support of responsible investment.
7. The extent to which ESG objectives are incorporated into performance reviews and compensation mechanisms within the asset managers' organization.
8. The extent to which material ESG factors are incorporated into investment analyses and decisions and throughout their portfolio construction.
9. The extent to which they incorporate their own responsible investment policy into their asset allocation decisions and portfolio-level review and analysis.
10. Whether the asset manager has measures in place to assess and address climate-related risks and opportunities.

We incorporate our responsible investment principles within the mandates of newly appointed asset managers, in particular sharing this policy. For existing asset management relationships established prior to this policy, we work closely with them to ensure their consideration of our responsible investment approach and anticipate updating our formal investment mandates when possible.

We expect our appointed investment managers will consider financially material ESG risks and opportunities as part of the investment decisions appropriate to the asset class(es) that they manage. This includes ensuring that any financially material ESG considerations are supported, identified, and documented by robust research. We expect investment decision-making to be driven by a range of factors, including financially material fundamental factors as well as financially material ESG factors and overall portfolio construction considerations. Our overall primary goal is the aim of delivering good long-term returns and well-managed risk.

We expect our appointed asset managers to be active stewards of the assets that they manage, recognizing the varying nature of ownership rights associated with each asset class.

7 External Managers Selection, Appointment and Monitoring continued

For appointed managers with listed equity mandates, our expectations for responsible stewardship are as follows:

1. A robust proxy voting policy and process that aligns with relevant standards of corporate governance, applicable legislation, and global good practice.

2. Proxy voting policies should be periodically reviewed and updated, or as dictated by changes in legislation, specific resolutions, as well as the emergence of financially material ESG risk factors, prioritizing systemic issues and our ESG guidelines.

3. Consistently exercising voting rights on shares (either directly or via proxy) at investee company meetings.

4. Engaging with boards and management of investee companies on financially material ESG issues as a basis for driving positive outcomes.

5. Seeking opportunities to collaborate with co-investors on material issues to drive change whilst avoiding any 'acting in concert' concerns.

6. Ensuring that conflicts of interest in the proxy process are appropriately addressed.

7. Annual reporting of annual proxy voting and engagement outcomes.

8. We expect our appointed asset managers to encourage investee companies to measure their carbon footprint, enhance climate change disclosures, and develop plans to align with local Nationally Determined Contributions (NDCs).

For appointed managers with listed fixed income mandates, our expectations for responsible stewardship differ because of the different nature of the investment and different opportunities for effective engagement:

1. As part of ongoing monitoring of issuers, where appropriate, request a one-off engagement with an issuer to address a material issue of concern.

2. During new issuance, leverage the opportunity to raise financially material ESG issues particularly those with the potential to damage the credit worthiness of the issuer.

3. To use the opportunity of new issuance to encourage greater disclosure and adherence to reporting standards.

For appointed managers investing in private (unlisted) securities, our expectation for responsible stewardship is that investment managers act as responsible stewards of the investments, using their closer proximity to the management team to promote change consistent with our ESG principles. We encourage investment managers to build strong relationships with management teams and co-investors to facilitate an exchange of ideas and promote the sustainable management of the business. Where an investment manager is also the operator of the assets, such as in real estate, we look to them to adopt sustainable business practices and standards for their operations similar to those we would expect from the boards of public companies.

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