

# ESG Investment Policy

## Statement

The Hanover Insurance Group, Inc. is committed to protecting our environment, making a difference in our communities and governing our actions with integrity. We sincerely believe these values are essential to our success as a leading property and casualty insurance company providing insurance solutions in a dynamic world. As a result of this commitment, we recognize that Environmental, Social and Governance (ESG) factors play an important role and are an essential consideration in the fundamental investment analysis that we undertake on behalf of the assets of the group that we manage internally through our Opus Investment Management, Inc. subsidiary. We believe integration of these factors in our analysis will lead to better investment decisions with respect to the sustainability of an investment and its risk and return profile.

We incorporate ESG factors in our decision making as part of our fundamental investment research process. Our investment professionals employ both qualitative and quantitative screens of ESG factors to identify industry and company-specific risks and opportunities. We utilize guidelines published by external resources such as Principles for Responsible Investment<sup>1</sup>, Principles for Sustainable Insurance<sup>2</sup> and Global Coal Exit List<sup>3</sup> to inform our investment professionals and help them to develop and maintain a better understanding of the investment implications of ESG factors. We have found that by having a greater awareness of how ESG factors can enhance returns and better manage risks, our investment professionals demonstrate a higher level of integration of ESG factors into their investment decision making. Findings from this process are incorporated with other relevant information as part of our broader investment decision making process.

While there are numerous issues to consider within an ESG context, specific guidelines we have adopted to align our investment holdings with our policy include the following examples.

## Environmental

- Support, in recognition of climate change, investment in electric utilities with (i) low or declining coal exposure in their generation mix, (ii) increasing exposure to renewable sources of energy production, or (iii) a demonstrated commitment and progress toward achieving a reduced carbon footprint.
- Exercise caution toward investment in companies or entities that are involved in (i) mining or processing thermal coal, (ii) development of any new coal mine or coal power infrastructure, and (iii) producing, processing, or shipping crude oil produced from tar sands.
- Support investment in water utilities involved in the management of scarce water resources.

## Social

- Favor investment in companies whose policies and practices support positive outcomes with respect to: (i) corporate citizenship and customer relations and (ii) talent management, employment policy, and labor relations.
- Favor investment in the securities of companies that promote public health.

- Avoid companies or entities that are domiciled in countries that we determine to have low standards and weak protections with respect to: (i) human rights and social justice issues, (ii) governance effectiveness and political stability, (iii) adherence to the rule of law and strength of legal system, and (iv) control of corruption and absence of violence.

### Governance

- Support investment in the securities of municipal and corporate entities with strong governance and disclosure frameworks.
- Favor investment in companies with a strong framework of controls and procedures with respect to: (i) board effectiveness and independence, (ii) business ethics, (iii) risk and controls, and (iv) financial reporting and disclosure.
- Support investment in issuers with established plans to evaluate and proactively address the risks its operations and reputation may face, and is prepared to quickly and clearly communicate this information to key stakeholders.

We regularly review our investment holdings and portfolio performance. If one of our investments or investment opportunities should fail to fully meet our standards for conducting its business in a socially responsible way, we will seek to understand why. If after we have performed a full evaluation of the company and determined that the company has made a full commitment, strengthened the appropriate policies and practices, and taken sufficient action to remedy the shortcoming(s) and operate its business in a way that will meet our ESG standards within a reasonable time frame and preserve the viability of its business model, then we will continue to own such investment, or if we do not already own it, consider it to be a viable candidate for future purchase. If we believe the company or issuer will be permanently in conflict with this ESG investment policy, we will then take appropriate action to reduce or sell the position or remove it from consideration for future purchase.

## END NOTES

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<sup>1</sup> **Principles for Responsible Investment (PRI)** is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI is truly independent. It encourages investors to use responsible investment to enhance returns and better manage risks, but it does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

(<https://www.unpri.org/>)

<sup>2</sup> **UNEP FI Principles for Sustainable Insurance Initiative (PSI Initiative)** was launched at the 2012 UN Conference on Sustainable Development. The PSI Initiative serves as a global framework for the insurance industry to address environmental, social and governance risks and opportunities. The PSI Initiative relies upon the Principles for Responsible Investment to integrate ESG issues into investment decision making.

Endorsed by the UN Secretary-General, the Principles have led to the largest collaborative initiative between the UN and the insurance industry - the PSI Initiative. Over 120 organizations worldwide have adopted the four Principles for Sustainable Insurance, including insurers representing more than 25% of world premium volume and USD 14 trillion in assets under management. The Principles are part of the insurance industry criteria of the Dow Jones Sustainability Indices and FTSE4Good.

The vision of the PSI Initiative is of a risk aware world, where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society. The purpose of the PSI Initiative is to better understand, prevent and reduce environmental, social and governance risks, and better manage opportunities to provide quality and reliable risk protection.

(<https://www.unepfi.org/psi/>)

<sup>3</sup> The **Global Coal Exit List (GCEL)** is a global mapping of companies operating all along the thermal coal value chain. The GCEL not only covers all of the largest coal producers and coal plant operators, it also captures many of the specialized equipment providers, coal processors, traders, coal transporters and other businesses which are part of the thermal coal value chain. All in all, the GCEL features 775 parent companies and over 1,100 subsidiaries and provides a comprehensive snapshot of the global coal industry. This tool allows climate-conscious investors to assess the coal content of a specific investment. A special feature of the GCEL is that it also identifies which companies are planning to expand coal mining or build new coal power stations.

(<https://coalexit.org/>)