Clal Insurance Group – ESG Investment Policy

1. General Background on ESG

The integration of Environmental, Social, and Corporate Governance (ESG) considerations, often referred to as responsible investing, has become a defining trend in the global investment landscape.

ESG is increasingly recognized not only as a framework for risk management, but also as a source of financial opportunity. Alongside ESG, investors are now grappling with emerging challenges such as climate change, cyber risks, and technological disruption.

By 2021, more than USD 45 trillion in assets worldwide were managed in line with ESG-driven strategies, with leading global financial institutions, such as BNP Paribas, BlackRock, CalPERS, and Schroders, embedding ESG criteria into their investment processes.

At its core, ESG investing evaluates how companies address key environmental, social, and governance challenges.

- **Environmental** considerations include resource efficiency, pollution mitigation, and overall management of ecological impacts.
- **Social** factors focus on workforce diversity, labor rights, data privacy, and engagement with stakeholders such as customers and suppliers.
- **Governance** encompasses board independence and effectiveness, audit quality, shareholder rights, remuneration policies, transparency, and resilience against corruption or bribery risks.

Rationale for Adopting ESG Investments

Responsible investing offers significant advantages, which is why many leading financial institutions worldwide have embraced ESG strategies. The three primary benefits can be summarized as: returns, risk management, and public perception.

1. **Returns**
   Extensive research demonstrates a positive correlation between responsible investment practices and financial performance. A notable example is a meta-analysis conducted in collaboration with Deutsche Asset Management, which reviewed approximately 2,000 academic studies published between 1970 and 2015. The findings revealed that 92% of the studies showed either comparable or superior returns when ESG considerations were integrated into investment decisions. Specifically, 63% of studies reported a positive effect on returns,

while 29% reported a neutral impact. Only 8% of the studies indicated a negative effect on performance[1].

Importantly, this positive correlation between ESG integration and financial returns is often most evident during periods of economic crisis, underscoring the resilience of companies with strong ESG practices.[2]

A study published by BlackRock in April 2020 found that, during recent market downturns, ESG indices consistently outperformed their traditional benchmarks.

2. Risk Management

The risks confronting global economies are evolving rapidly. According to the World Economic Forum, the most significant risks over the coming decade include extreme weather events, inadequate climate-change preparedness, and biodiversity loss, all of which are directly linked to the consequences of climate change.[3]

Moreover, resilience in managing social (the "S" in ESG) factors proved its value during the COVID-19 pandemic, as companies that managed their workforce with greater flexibility were able to maintain business continuity more effectively during lockdowns.

3. Public Interest and Market Sentiment

Investor demand for responsible investment continues to grow. A survey conducted by Morgan Stanley among 1,000 U.S. retail investors revealed that the overwhelming majority, particularly among millennials, want environmental and social considerations to be integrated into the management of their assets.[4]

ESG Investing in Israel

Despite the financial and ethical rationale for responsible investing, the Israeli capital market is still in its early stages of development with respect to ESG practices. One of the most significant drivers of progress has been the Capital Market Authority's directive requiring institutional investors to adopt ESG policies.

As of May 2022, however, a key challenge remains: the lack of structured ESG management and reporting among Israeli companies. While the Israel Securities Authority has published guidance encouraging companies to disclose ESG-related information, such disclosure remains voluntary, and many companies continue to refrain from both implementing ESG practices and reporting on them.

Consequently, Israeli companies tend to receive significantly lower ESG ratings compared to their international peers. With the implementation of the 2022 directive for institutional investors, alongside growing public awareness and discourse, it is

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[1] Friede, Gunnar and Busch, Timo and Bassen, Alexander, ESG and Financial Performance: Aggregated 1dence from More than 2000 Empirical Studies (October 22, 2015). Journal of Sustainable Finance & Investment, Volume 5, Issue 4, p. 210-233, 2015, DOI: 10.1080/20430795.2015.1118917. Available at SSRN: https://ssrn.com/abstract=2699610

2 https://www.blackrock.com/corporate/literature/investor-education/sustainable-investing- 2 resilience.pdf

3 http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf

4 www.morganstanley.com/ideas/sustainable-socially-responsible-investing-millennials-drive-growth

expected that Israeli companies will enhance their focus on ESG in the coming years, leading to improved ratings over time.

Clal Insurance Group also intends to play an active role in advancing awareness and engagement on ESG issues among Israeli companies, as outlined later in this document.

1.4 Definition of Key Terms

In implementing the ESG policy, certain evaluation and classification processes are applied with respect to the companies under review. This section outlines the principal terms that will guide the investment teams throughout the process.

1.4.1 "Controversial Activities" vs. "Positive Impact Activities" (SDGs)

- **Controversial Activities** – This refers to the nature of a company's core business, independent of its ESG conduct or practices. Certain industries and activities are inherently regarded as controversial, including fossil fuels, extraction of natural resources, animal testing, involvement in hazardous chemicals, alcohol, pornography, and others.

Companies engaged in such activities are flagged and classified accordingly, recognizing that some investors may object to the very existence of these business lines. Importantly, such classifications do **not** affect the company's ESG rating; there is no "penalty" applied. However, this mapping enables investors to establish reduction targets or exclusion strategies in line with their own investment preferences.

- **Positive Impact Activities** – In contrast, when considering the United Nations Sustainable Development Goals (SDGs), recent years have seen growing demand for investments in companies whose activities create a demonstrable positive impact. These are companies that derive revenues from products and services aligned with the UN's 17 Sustainable Development Goals, set in 2015 with a target year of 2030.

These goals have since become a strategic roadmap for many companies and investors worldwide, driving substantial capital flows into these areas. The prevailing view is that companies able to innovate and scale sustainable products and services will hold a distinct competitive advantage.

Within the Greeneye evaluation model—used by Clal—the revenues of companies from SDG-aligned products and services are mapped to highlight an additional dimension of their long-term business potential. It should be noted that such positive contributions do **not** directly enhance the company's ESG score; rather, they serve as an additional layer of analysis that helps guide long-term, impact-oriented investment preferences.

1.4.2 Climate Change and Technological Risks

The ESG policy also incorporates two additional areas of focus: the management of climate-related risks and the management of technological disruption risks.

- **Climate Change Risks** – Climate risk represents one of the most material exposures across all asset classes. When evaluating climate-related investments, particular attention must be paid to the information derived from high-exposure assets. Given that climate change is today among the most critical challenges confronting companies, it demands dedicated consideration. Climate-related risks manifest in various forms, including regulatory risk, threats to raw material supply chains, liquidity risks, legal liabilities, and a wide range of physical risks. Each of these has the potential to restrict or impair a company's operations.
- **Technological Risks, including Cybersecurity** – Emerging technological risks pose growing challenges to both corporate reputation and the continuity of business operations. In particular, cyber risk has become increasingly material over time. As the global economy becomes more digitalized, companies face heightened exposure to cyber threats, which regulators worldwide now regard as a matter of strategic importance.

In 2021, for example, Gary Gensler, Chair of the U.S. Securities and Exchange Commission, emphasized that investor disclosures regarding cyberattacks would be given elevated priority. In this context, there is a clear expectation that companies ensure transparency and provide comprehensive disclosures to investors, particularly regarding material incidents and their cybersecurity preparedness.

As a general principle, any references in this policy to risk assessment and management should be understood as applying equally to these categories of risk within the broader ESG framework.

2. CANAF Policy

2.1 Background

Clal Insurance and Finance believes that integrating ESG considerations into investment management constitutes a complementary layer to traditional financial analysis. ESG integration enhances, rather than replaces, the process of assessing investment risks. Responsible investment generates positive impact across economic, social, and environmental dimensions. It also enables policyholders—on whose behalf Clal Insurance manages its investment activities—to align their portfolios with values that matter to society, the economy, and the planet.

Research demonstrates that responsible investment not only drives positive change but also delivers financial value, creating a shared interest for regulators and institutional investors to actively encourage such practices.

To support the assessment of ESG, climate, cyber, and technology-related risks, Clal Insurance has engaged **Greeneye ESG Ltd.**, leveraging its proprietary **Greeneye Data** platform. Greeneye, recipient of the 2016 *Business Green Globe Award*, brings nearly two decades of expertise in embedding environmental, social, and governance considerations into investment, insurance, and credit-decision processes. Importantly, Greeneye does not provide ESG advisory services to publicly traded companies, thereby ensuring independence and avoiding conflicts of interest. The firm’s team of seven dedicated analysts and research managers specializes exclusively in ESG issues.

Clal has collaborated with Greeneye both in shaping this ESG Investment Policy and in acquiring access to its data repository and rating model. In addition, Clal has adopted Greeneye’s analytical questionnaires as a tool to evaluate ESG risks across all non-traded investment classes. For implementation, Clal has been granted full access to Greeneye’s research methodology.

2.2 Research Tools for ESG Policy Implementation at Clal Insurance

The integration of ESG considerations will be applied across the full spectrum of Clal’s investment products, including publicly traded securities in Israel and abroad, as well as private-market transactions domestically and internationally. Naturally, differences exist among asset classes in terms of standard work processes and the research tools employed for risk evaluation.

Accordingly, the following external research tools will be utilized in conducting ESG analyses:

Asset Class	**Assessment Tools**
Publicly Traded – Israel	Greeneye Model; Giza – Corporate Governance
Publicly Traded – Global	BlackRock Model; Schroders Model; Bloomberg Model

Private Markets	Dedicated Questionnaires; Greeneye Benchmarking

2.3 Assessment Tools for Publicly Traded Companies in Israel

Greeneye ESG Assessment Model

The *Greeneye Data* platform provides comprehensive coverage of all companies listed on the Tel Aviv Stock Exchange. The purpose of Greeneye's ESG assessment and scoring is to evaluate a company's ability to address the challenges it faces. This evaluation is based on:

- Company publications
- Annual reports
- Corporate responsibility reports
- Company statements and responses
- Various external sources highlighting events and additional information

The database incorporates several dimensions, including:

- **ESG Analysis and Rating** – A comprehensive, in-depth evaluation of a company's conduct across dozens of parameters in the areas of environment, social factors, and corporate governance. This assessment is conducted annually following the publication of the company's annual report. An additional update may be conducted during the year if a corporate responsibility report is released or if a material change in the company's structure occurs.

The evaluation is based on a wide range of criteria, such as:

  - Environmental strategies
  - Environmental management systems
  - Measurement of energy and water consumption
  - Wastewater emissions
  - Reduction of environmental impact from waste
  - Reduction of air pollution impact
  - Environmental aspects of the supply chain
  - Preparedness for climate change impacts
  - And more

Social Criteria

Social indicators include employee rights, workforce diversity, product impact, equality, welfare considerations, job security, workplace safety, labor relations, socio-economic development, stakeholder dialogue, and related management systems.

Corporate Governance Criteria
Corporate governance is assessed across several dimensions, such as: ESG oversight at the board level, gender diversity and non-discrimination, board independence and proper conduct, auditor independence, audit committee effectiveness, proportion of external/independent directors, professional experience of board members, and the existence of systems and policies for preventing corruption and bribery.

The materiality of each issue varies across sectors and industries; therefore, each company is assessed on the basis of the issues most relevant to its operations, taking into account the geographical regions in which it operates.
Each criterion is assigned a weight reflecting the company's risk exposure, alongside criteria for evaluating corporate conduct. The score for each topic is calculated as the product of exposure and conduct performance. The final ESG score is a weighted average across all criteria.

Extraordinary Events
Continuous monitoring is conducted for extraordinary events involving the company, with severity and company response both evaluated. Such events negatively affect the final ESG score. A company facing multiple and/or severe events may receive a "red flag." Severity is determined by continuity, scale of impact, and potential for remediation. The more severe the event, the greater the negative factor applied. A company's proactive and specific response to an incident can reduce the negative impact.
Examples include class-action lawsuits, regulatory investigations, workplace safety or negligence incidents resulting in employee harm, sexual harassment cases, discrimination based on religion/gender/age, and serious environmental damage.

Climate Change Risks
The database assesses both risks posed by companies as contributors to climate change and risks to which they are exposed as a result of it. The assessment considers company policies, management strategies, and disclosures, including quantitative reduction targets, board-level accountability, adaptation plans, R&D activities, supply chain management, and more.

Cybersecurity Risks
Cybersecurity is considered a technological risk that may affect company operations. The database reviews disclosures regarding the existence of cybersecurity systems for protecting the company and its customers. Companies with more sensitive data are assessed as having higher exposure. Evaluated aspects include compliance with external standards, assignment of responsibility to a senior executive, staffing levels, training and procedural measures, technological tools, and whether the company disclosed any realized cyber incidents during the reporting year.

Controversial Activities Mapping
This process identifies companies engaged in activities that may be considered objectionable, potentially influencing investor willingness to invest. While involvement in such activities does not directly affect a company's score, it allows for differentiated investor policies.
Controversial activities include fossil fuels, animal testing, weapons production, pornography, gambling, and tobacco. This list is flexible and may be updated over time.

Impact Activities Identification
The system maps companies' business potential in products and services aligned with the UN Sustainable Development Goals (SDGs). This allows for positive screening of companies operating in areas deemed sustainability-enhancing, with the assumption that such alignment may positively influence both performance and financial outcomes.
Relevant areas include renewable energy, healthcare, food security, financial inclusion, mass transit, pollution reduction, education, electrification, water and sanitation, biodiversity conservation, and climate change mitigation.

Assessment Model
The model produces a final ESG score for each company, with detailed breakdowns of E, S, and G components. Scores are presented both in absolute terms and relative to industry peers and relevant indices. Profiles also include methodology notes, score rationales, and materiality assessments.

In addition to Greeneye, *Canaf Group* maintains an engagement with **Giza** as a governance research provider for companies traded in Israel. Giza's coverage includes multiple governance categories such as board activity, executive compensation policies, shareholder rights, related-party transactions, and audit and oversight quality. Investment analysis integrates outputs from both Greeneye and Giza to form a comprehensive governance assessment.

2.4 ESG Assessment Tools for Publicly Traded Companies Abroad
For evaluating ESG considerations in international investments, *Canaf Group* relies on **BlackRock** and **Schroders**. Both are global investment firms among the world's largest asset managers, with trillions of dollars under management across more than 100 countries, supported by experienced investment and research professionals.

The information provided by these firms covers:

- **ESG Analysis and Rating of Companies** – Both firms continuously rate most companies included in the ACWI Index (approximately 90%), applying proprietary methodologies that account for ESG factors and the UN's 17 Sustainable Development Goals.

- **Portfolio Analysis** – At our request, service providers conduct analysis of direct and indirect holdings (indexes, ETFs, mutual funds), highlighting companies with elevated ESG risks (low ratings) and sectoral exposures that may increase portfolio risk.

- **Risk Identification** – Rating providers offer access to company and portfolio-level reports, outlining factors affecting scores. Canaf may engage in research discussions to deepen understanding.
- **Assessment Model** – Final ESG scores per company, including breakdowns of E, S, and G, presented in absolute and relative terms. Profiles include methodology, rationales, and materiality insights.
- **Climate Change Risks** – At the portfolio level, climate change risks are assessed. For individual holdings, all available public information is reviewed to assess exposure.
- **Cybersecurity Risks** – Currently, global ESG methodologies do not explicitly address cybersecurity risks. For individual holdings, Canaf will analyze public information to assess exposure.

2.5 ESG Assessment Tools for Private Market Investments

For private investments, *Canaf Group* employs a set of proprietary ESG questionnaires developed internally with Greeneye's support. These are distributed to companies, project managers, or funds for self-completion. The questionnaires are designed to assess investment entity practices and, when applicable, to calculate scores using a model that incorporates evaluator considerations.

Different questionnaires have been developed to fit specific sectors:

- **Private Companies** – A short ESG questionnaire assessing company practices across ESG, climate, and cyber domains.
- **Real Estate Investment Companies** – Focused on property portfolios, energy consumption monitoring, and related factors.
- **Existing Building Management** – Emphasizes operational practices and environmental impact reduction.
- **Real Estate Development & Infrastructure Projects** – Evaluates existing controls, certifications, and professional oversight to ensure quality construction.
- **Operational Infrastructure** – Reviews operational performance and environmental impact reduction measures.
- **Investment Funds** – Reviews fund management strategies and integration of ESG considerations into policies and investments.

All questionnaires incorporate climate and cyber risk assessments for private transactions. They are included as appendices to relevant operational procedures and updated periodically as needed.

3. Implementation Process

The integration of ESG into the investment management process includes three main components:

1. **Policy determination, adoption, and selection of advisors for implementation** – under the responsibility and approval of the Investment Committees.
2. **Adjustment of procedures and work processes** – to enable the implementation of the policy approved by the Investment Committees.
3. **Formation of the "ESG & Long-Term Risk Management Team"** – This team will include key representatives from the group's various investment divisions, including a representative from the Risk Management Department. The team's role is to oversee and promote the implementation of ESG integration within the company. The team will convene every six months. Its composition will include at minimum: the CEO of *Canaf*, the Chief Investment Officer (CIO) of Members/Deputy CIO, the CIO of Nostro, the Chief Investment Strategist, Canaf's Legal Counsel, a Risk Management representative, and a Clal Insurance ESG Advisor.

3.1 Application of ESG Principles in Group Investments

As part of its investment considerations, **Clal Insurance Group** evaluates companies of interest through both a business and an economic lens. Institutional investment decisions are driven by long-term considerations, and ESG factors—including climate change and cyber risks—are regarded as integral to the overall business and financial evaluation of potential investments.

A company with a **low ESG rating** is considered more exposed to elevated business risks, while a **high ESG rating** is expected to deliver superior returns. Accordingly, Clal Insurance's policy is to assign a **positive weight** to companies with relatively high ESG assessments and a **negative weight** to those with low assessments.

To this end, the group has adopted several strategies for integrating ESG into the investment decision-making process. The various Investment Committees (including the Nostro Investment Committee) instruct portfolio managers to incorporate ESG quality as a factor in all investment decisions, whether new or ongoing.

Investment managers and analysts are expected to assess each investment **holistically**, combining:

- **F – Financial analysis**
- **B – Business analysis**
- **ESG – Sustainability analysis**

The final investment decision will consider all factors and their impact on investment viability, at the discretion of the portfolio manager. Each analytical review of a potential corporate investment will include the company's **ESG rating**, its **corporate governance report**, and the analyst's commentary on the implications of these scores.

3.2 Core Principles of ESG Policy Implementation Across All Group Investments

- **Social Responsibility & Transparency in Israel** – Clal Group places significant importance on contributing to improved corporate responsibility in Israeli corporations. Accordingly, efforts will be made to communicate to companies that received a low ESG score due to insufficient disclosure that Clal is embedding ESG into its processes, and that greater transparency is expected. Clal's representatives will clarify this expectation through the professional engagement tools at their disposal in interactions with publicly traded companies in Israel.
- **Positive-Impact Activities (SDGs)** – Clal Insurance invests significant amounts in debt and equity of companies operating in **renewable energy** (solar and thermo-solar plants, wind power generation), in **climate-tech companies** (innovative technologies for addressing climate change), and in companies deriving revenues from products and services aligned with the UN Sustainable Development Goals (SDGs). All such investments remain subject to business and economic considerations.
- **Companies in Controversial Activities** – As a global investor, Clal invests across all sectors and industries. Such diversification is required to maintain the group's resilience and its ability to manage substantial sums on behalf of its members to maximize long-term value. Nevertheless, Clal recognizes evolving risks and accordingly monitors and maps companies' activities, assigning special consideration to those operating in **controversial sectors**, such as fossil fuels.
- **Climate Change and Cyber Risks** – Given their significance, companies are expected to demonstrate risk management practices across both dimensions. Environmentally, companies must assess not only their own contribution to climate change but also the impacts of climate change on their operations. Even in high-risk investments involving climate and cyber exposure, companies are expected to demonstrate at least minimal preparedness. Direct investments in companies lacking adequate mechanisms will be reconsidered.
- **Social Criteria** – This dimension will be assessed with heightened caution, as it may involve the introduction of politically sensitive considerations.

3.3 Implemented Processes

- **Mapping of public investment portfolios** – from an ESG perspective.
- **Pre-investment analysis for new opportunities** – to be conducted based on advisor assessments and/or internal evaluations, incorporating public data and supplemental questionnaires for relevant domains (e.g., private investments). Analyses of new investments presented to decision-makers by the Research Department and professional desks will include ESG scores and assessments of climate and cyber risks.

3.3 Ongoing Monitoring and Applied Processes (continued)

- **Monitoring of Existing Assets** – Portfolio managers and analysts conduct continuous monitoring of developments across existing investments, including ESG-related aspects. The frequency of such monitoring aligns with ongoing portfolio management practices and may include the use of information systems contracted by Clal, as well as ongoing communication with investee companies through various channels. Where relevant, Clal will approach portfolio companies directly to encourage greater transparency and disclosure of ESG-related information. Detailed procedures for review, tailored to the characteristics of each asset class, are specified in internal work protocols.

- **Handling of Exceptional Events** – A significant ESG event, as defined by GreenEye's rating model ("Red Flag"), will require special attention. Responses may include reporting, formal correspondence with the company, requests for clarification, and ad-hoc committee meetings as needed for decision-making. Actions will be based on a reasoned decision by the relevant investment manager/analyst, in line with applicable procedures.
- **Periodic Reporting to the Investment Committees**:
  - **Private Investments (Non-traded)** – Semi-annual reporting to the Investment Committees, as part of the ongoing updates provided by the private markets divisions.
  - **Public Investments (Traded)** – The semi-annual report will include the portfolio's status across various ESG parameters, including average ESG score, fossil-fuel exposure, and the number of companies with material exceptional events.
- **Engagement and Stewardship** – As part of its efforts to improve ESG practices in investee companies, Clal will consider involvement in the nomination of directors or external directors in corporations where ESG practices are deemed to require improvement. Special emphasis will be placed on **gender diversity**, with the aspiration that women will comprise at least one-third of every board of directors.
- **Quarterly Analysis of Members/Nostro Portfolios** – Each quarter, a forum will convene including all relevant stakeholders from the public markets, research, and strategy divisions. Participants will include the CIO for Members/Nostro, the Chief Investment Strategist, the Head of Research, and managers from the Global Markets, Israel Equities, and Israel Fixed Income desks (Members/Nostro). Separate meetings will be held for Members and for Nostro portfolios. The quarterly review will cover:
  - Major ESG developments
  - Review of portfolio structure and ESG ratings
  - Severe exceptional events (Red Flags per GreenEye ratings)
  - Companies generating revenues from controversial activities (Israel/abroad)

    - Review of the lowest ESG-rated securities, segmented by sector, relative to thresholds set by the CIO in internal procedures
    - Updates to procedures/reporting processes, as required

- **General Exclusions Policy** – At this stage, Clal Group does not impose blanket exclusions on investments in specific industries. This policy is subject to ongoing review in light of market conditions, regulation, and broader developments.
- **Capacity Building and Expertise in ESG, Climate, and Cyber Risk Assessment**:
    - Clal receives continuous advisory support from **GreenEye**, a firm with extensive expertise and experience in these fields, which provides the group with regular reports and insights (see Section 2.3).
    - **Training and Professional Development** – Clal will provide regular training sessions and enrichment lectures on ESG, climate risks, and cyber risks, including the identification of emerging risks. These trainings will be conducted by external experts, coordinated by *Canaf*, with the involvement of Clal's external ESG advisor, at least on a semi-annual basis.
    - As part of the ESG Forum's activities, emerging risks will be reviewed twice annually.

3.4 Dynamic and Evolving Policy

As ESG is a developing and evolving field, subject to future changes and emerging standards, Clal Group will continue to review and, when necessary, update its ESG policy. Where appropriate, discussions will be held in the Investment Committees to evaluate alignment with changing market conditions, and decisions will be made from time to time to adjust the policy accordingly.