

**REPLY BY THE VICE-PRESIDENT OF THE POLICY & RESOURCES COMMITTEE
TO QUESTIONS ASKED PURSUANT TO RULE 14 OF THE RULES OF
PROCEDURE BY DEPUTY DE SAUSMAREZ**

Deputy de Sausmarez declared an interest in this item when it was discussed at the Policy & Resources Committee and withdrew from the discussions. She did not receive the draft response.

Important note on the basis of preparation of these responses:

The data contained in these responses are based on MSCI definitions and categorisations of the relevant controversial industries. It should be noted that many companies will fall within these categories even if the vast majority of their economic activity is not directly related to controversial activities. Please see the response to question one for several examples. As such, the overall exposure to securities issued by companies that fall within MSCI categorisations should not be read as directly equal to the exposure to the controversial activity described. This is particularly relevant for exposures to controversial weapons and adult entertainment.

The data contained in these responses are presented on a lookthrough basis. That is, they seek to show underlying investment exposures rather than exposures at manager level alone. This means where an individual manager holds an asset within their fund (be that an equity, fund or derivative), we have sought to show the exposures to those underlying assets on the most granular level possible. There are a number of complexities in the presentation of this data which are outlined below. We expect the data to be highly accurate, however in order to provide responses in a timely fashion, we have taken certain approaches that may lead to a small risk of variance from actuals. These are also described below.

A long position is a conventional investment, where you simply buy a security. Short positions arise when you borrow a security and sell it without owning it first. Short positions can be considered negative economic exposure to a security. Certain managers within our portfolios deploy investment strategies that involve taking both long and short positions in a variety of securities. Sometimes this may include both long and short positions in an individual company or security. In presenting our overall exposure, we have used the net position (i.e. the combination of long and short positions) where available, as this best reflects the investment amount committed. Where net exposure within any individual manager was short (i.e. less than £0 exposure), we have included their positioning in consideration of the overall portfolio but excluded them from presentation in consideration of individual securities. For two managers, only long data were available. For these managers we have included long data only, noting that this is likely to lead to a small overstatement of overall exposures.

Certain managers, primarily within our absolute return investments, have strategies that do not have any relevant exposures to controversial industries within single securities but do hold indirect exposure via equity futures, swaps or other derivatives. Where data was available, we present the lookthrough exposure of the specific underlying assets these managers hold. Where data were not immediately available, we have applied the manager's net exposure, which was known, to a suitable proxy index in order to estimate their exposures to each controversial industry in scope. This use of a proxy is limited to a very small portion of the overall portfolio.

For one specific manager, their overall controversial sector exposure was provided, however the underlying company names were not available in granular form. As a result, we have used lookthrough data from their regulatory filings, which contain detail of individual investments, to compile the dataset. We expect this to be a good proxy.

Several managers employ short term trading strategies which may involve exposure to individual securities, equity indices, futures, swaps, or other derivatives. These exposures have been included in the data, subject to the caveats elsewhere in this note, but it should be noted that these are short term positions and exposures may change materially on a day-to-day basis. Such positions could be viewed not as true investments.

In our responses, we have presented complete data at portfolio, manager, and individual holding level. This offers a full picture of the portfolios' exposures to the sectors in scope, the relevant underlying companies, and the exposure levels within individual funds. There are commercial sensitivities in attributing individual holdings or sectoral exposures to the strategies that hold them. As a result, a significant portion of the data has been anonymised in order to maintain confidentiality and protect commercially sensitive information. Where the attribution of individual holdings to specific managers, or the disclosure of manager-level sectoral exposures, was not commercially sensitive we have included this information in full.

The data presented in this response is as at 31/12/24, as this is the most suitable recent date for which data could be compiled.

Question 1

Please provide details on the total exposure of the States of Guernsey's investment portfolios to controversial businesses by total GBP investment amount, including the following information:

- Exposure to controversial weapons in GBP investment amount;
- Exposure to adult entertainment in GBP investment amount; and
- Exposure to gambling in GBP investment amount.

Please also provide an additional breakdown of this exposure by manager and provide a list of the names of the underlying portfolio companies within each manager which constitute controversial businesses, and the States of Guernsey's GBP investment amount exposure to these individual companies.

Answer

Controversial weapons:

The total exposure to securities issued by companies associated with controversial weapons is £5,409,143, representing around 0.16% of the overall portfolios. 99.98% of the exposure to controversial weapons is contributed by three companies, listed below. Each is a large multinational with diverse operations across aerospace and defence, and the production of controversial weaponry represents an extremely small portion of their overall operations. Each of these companies maintains substantial and longstanding relationships with governments across the world:

Top three exposures to controversial weapons:

The Boeing Company Limited:	£2,046,418
Lockheed Martin Company Limited:	£2,322,556
General Dynamics Corporation:	£1,039,292

Adult Entertainment:

The total exposure to securities issued by companies associated with adult entertainment is £1,241,236, representing around 0.04% of the overall portfolios. The majority of this exposure sits with two companies, Paramount Global and DirecTV. Paramount is a global media company with assets such as Paramount Pictures, CBS, Comedy Central and Channel 5. DirecTV is a US-based satellite TV and streaming provider. Adult entertainment is likely to represent, at most, a very small portion of their overall economic activity.

Gambling:

The total exposure to securities issued by companies associated with gambling is £18,325,923, representing around 0.53% of the overall portfolios.

The States of Guernsey's investment portfolios have total exposure of £24,976,302 to securities

issued by companies involved in these industries. This represents 0.73% of the overall portfolios. It must again be noted that much of this exposure is to companies that are not narrowly focused on controversial industries but are included on the basis that certain parts of their operations fall within the MSCI definitions we utilise in reporting.

Exposures by manager:

The following table shows the States of Guernsey's exposure to each of these industries by manager.

Fund	Controversial weapons	Adult Entertainment	Gambling	Total
Fund A	£0	£0	£6,521,795	£6,521,795
Fund B	£0	£0	£3,172,686	£3,172,686
Fund C	£0	£1,241,236	£1,103,321	£2,344,557
Fund D	£504,205	£0	£432,176	£936,381
Fund E	£1,273,680	£0	£516,964	£756,716
Fund F	£68,690	£0	£631,947	£700,637
Fund G	£180,651	£0	£427,309	£607,960
Fund H	£107,820	£0	£25,485	£133,305
Fund I	£85,925	£0	£150,369	£64,444
Fund J	£21,486	£0	£23,195	£44,680
Fund K	£20,377	£0	£7,139	£27,516
Fund L	£0	£0	£21,972	£21,972
Fund M	£6,490	£0	£4,369	£10,859
Fund N	£0	£0	£302	£302
Fund O	£62,497	£0	£24,999	£87,496
FTF Brandywine Global Income Optimiser Fui	£0	£0	£4,504,650	£4,504,650
BlackRock Developed World Index Fund	£1,697,525	£0	£1,239,687	£2,937,212
BlackRock iShares US Index Fund	£1,676,643	£0	£396,303	£2,072,946
Palmer Square Income Plus Fund LLC	£0	£0	£205,181	£205,181
	£5,409,143	£1,241,236	£18,325,923	£24,976,303

Exposure by company:

The following table shows details of States of Guernsey's exposure to each underlying company classified as falling within the MSCI definitions described above and details of the funds that hold these investments.

Company	Controversy	£ Exposure	Funds with exposure
888 Acquisitions Ltd.	Gambling	£189,633	Fund C
Accel Entertainment Inc.	Gambling	£3,746	Fund E
Affinity Gaming	Gambling	£1,055,375	FTF Brandywine Global Income Optimiser Fund
Allwyn International	Gambling	£677,811	FTF Brandywine Global Income Optimiser Fund, Palmer Square Income Plus Fund LLC
Aristocrat Leisure Limited	Gambling	£255,890	BlackRock Developed World Index Fund, Fund F, Fund M
Bally's Corporation	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Boyd Gaming Corporation	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Caesars Entertainment Inc.	Gambling	£60,574	BlackRock iShares US Index Fund, Fund F, Fund G, Fund K, Fund J, Palmer Square Income Plus Fund LLC, Fund H
Catawba Nation Gaming Authority	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Century Casinos, Inc.	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Churchill Downs Incorporated	Gambling	£3,474	Fund G
Cisco Systems, Inc.	Gambling	£327,548	Fund C
Crane NXT Co	Gambling	£12,672	Fund F, Fund G
DIRECTV	Adult Entertainment	£430,985	Fund C
DraftKings Inc.	Gambling	£63,501	BlackRock Developed World Index Fund, Fund E, Fund F, Fund G, Fund M
ECL Entertainment	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Entain plc	Gambling	£55,244	BlackRock Developed World Index Fund, Fund F, Fund O, Fund M, Palmer Square Income Plus Fund LLC
Everi Holdings Inc.	Gambling	£20,845	Fund E, Palmer Square Income Plus Fund LLC, Palmer Square Income Plus Fund LLC
Evolution AB	Gambling	£188,366	BlackRock Developed World Index Fund, Fund F, Fund O, Fund M
FDJ United	Gambling	£29,857	BlackRock Developed World Index Fund, Fund F, Fund O, Fund M
Fertitta Entertainment	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Fiserv, Inc.	Gambling	£430,985	Fund C, Fund C
Flutter Entertainment plc	Gambling	£951,314	BlackRock Developed World Index Fund, Fund F, Fund I, Fund O, Fund D, Fund G, Fund M, Palmer Square Income Plus Fund LLC
Galaxy Entertainment Group Limited	Gambling	£763,908	BlackRock Developed World Index Fund, Fund B, Fund F, Fund M
Gaming and Leisure Properties Inc.	Gambling	£2,220,720	BlackRock Developed World Index Fund, Fund F, Fund G, Fund M, Fund A
Gaming1	Gambling	£302	Fund N
Gateway Casinos & Entertainment Limited	Gambling	£8,549	Palmer Square Income Plus Fund LLC
General Dynamics Corporation	Controversial Weapons	£1,039,292	BlackRock Developed World Index Fund, Fund E, BlackRock iShares US Index Fund, Fund F, Fund I, Fund K, Fund M, Fund J, Fund H
Genting Berhad	Gambling	£35	Fund M
Genting Malaysia	Gambling	£29	Fund M
Genting Singapore Limited	Gambling	£23,642	BlackRock Developed World Index Fund, Fund F, Fund M
Golden Entertainment, Inc.	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Greek Organisation of Football Prognostics S.A.	Gambling	£57	Fund M
Hanwha Aerospace Co., Ltd.	Controversial Weapons	£135	Fund M
Iliad SA	Adult Entertainment	£155,155	Fund C
International Game Technology	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Konami Group Corporation	Gambling	£70,117	BlackRock Developed World Index Fund, Fund F, Fund K, Fund M, Fund J
Korea Aerospace Industries, Ltd.	Controversial Weapons	£52	Fund M
Larsen and Toubro Limited	Controversial Weapons	£541	Fund M

Las Vegas Sands Corp.	Gambling	£879,057	BlackRock Developed World Index Fund, Fund E, BlackRock iShares US Index Fund, Fund B, Fund F, Fund O, Fund G, Fund K, Fund M, Fund J, Fund H
Light & Wonder, Inc.	Gambling	£54,342	Fund F, Palmer Square Income Plus Fund LLC
Lockheed Martin Corporation	Controversial Weapons	£2,322,556	BlackRock Developed World Index Fund, Fund E, BlackRock iShares US Index Fund, Fund F, Fund I, Fund O, Fund G, Fund K, Fund M, Fund J, Fund
LTIMindtree Limited	Controversial Weapons	£92	Fund M
Maverick Gaming	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Melco Resorts & Entertainment Limited	Gambling	£578,801	Fund B
MGM Resorts International	Gambling	£221,293	BlackRock Developed World Index Fund, BlackRock iShares US Index Fund, Fund F, Fund I, Fund O, Fund K, Fund M, Fund J, Fund H
Millicom International Cellular SA	Adult Entertainment	£137,915	Fund C
Mizuho Financial Group, Inc.	Gambling	£155,155	Fund C
Mohegan Gaming	Gambling	£1,553,001	FTF Brandywine Global Income Optimiser Fund, Palmer Square Income Plus Fund LLC
Ontario Gaming GTA LP	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Other	Gambling	£504,551	Fund A
Paramount Global	Adult Entertainment	£344,788	Fund C
PCI Gaming Authority	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Penn Entertainment, Inc.	Gambling	£5,829	Fund E, Fund G, Palmer Square Income Plus Fund LLC
PMF VI (Cayman) L.P.	Gambling	£21,972	Fund L
Red Rock Resorts, Inc.	Gambling	£12,023	Fund G, Palmer Square Income Plus Fund LLC
Sands China Limited	Gambling	£2,297,506	BlackRock Developed World Index Fund, Fund B, Fund F, Fund M, Fund A
Sega Sammy Holdings Inc.	Gambling	£97,311	Fund F
Solar Industries India Limited	Controversial Weapons	£59	Fund M
Spectacle Gary Holdings	Gambling	£8,549	Palmer Square Income Plus Fund LLC
Studio City International	Gambling	£772,226	FTF Brandywine Global Income Optimiser Fund
Tabcorp Holdings Limited	Gambling	£2,290	Fund F
The Boeing Company	Controversial Weapons	£2,046,418	BlackRock Developed World Index Fund, BlackRock iShares US Index Fund, Fund F, Fund I, Fund O, Fund D, Fund G, Fund K, Fund M, Fund J, Fund H
The Lottery Corporation Limited	Gambling	£41,808	BlackRock Developed World Index Fund, Fund F, Fund M
Vici Properties Inc.	Gambling	£3,006,494	BlackRock Developed World Index Fund, BlackRock iShares US Index Fund, Fund F, Fund K, Fund M, Fund J, Fund A, Fund A, Fund H
VodafoneZiggo Group B.V.	Adult Entertainment	£172,394	Fund C
Wynn Macau Limited	Gambling	£549,261	Fund I, FTF Brandywine Global Income Optimiser Fund
Wynn Resorts Limited	Gambling	£56,220	BlackRock Developed World Index Fund, Fund E, BlackRock iShares US Index Fund, Fund F, Fund O, Fund G, Fund K, Fund M, Fund J, Palmer Square Income Plus Fund LLC, Fund H
Total		£24,976,303	

Question 2

Will the Committee consider changing the ESG policy to 0% exposure to controversial areas/businesses, as per best practice?

Answer

The Committee is committed to aligning investment practices with the States of Guernsey's broader sustainability and ethical goals, including those related to climate change, social responsibility, and governance standards.

Current ESG Policy and Implementation

The States Investment Board's (the "SIB") ESG framework is already robust and forward-looking. As outlined in the 2024 Annual Report, our ESG policy is built on the following principles:

1. **Integration of ESG Factors:** ESG considerations are embedded into every investment decision, with a focus on long-term value creation and alignment with the States' sustainability goals.
2. **Paris Agreement Alignment:** Our investment approach is informed by the scientific consensus on climate change and is consistent with the goals of the 2015 Paris Agreement.
3. **Avoidance of Controversial Strategies:** We actively avoid narrowly focused strategies that may have meaningful exposure to controversial sectors, and instead orientate towards investments with enhanced ESG impact.
4. **Annual ESG Reporting:** We provide annual ESG scorecards using MSCI ESG analytics, which allow us to monitor exposure to controversial sectors and track progress against our targets.

Current Exposure to Controversial Areas

The States of Guernsey's portfolios have minimal exposure to controversial sectors, with holdings in these areas below global index averages. These exposures are monitored and managed on a continuous basis.

Considerations Regarding a 0% Exposure Policy

While the aspiration to eliminate exposure to controversial sectors entirely is understandable, there are several practical considerations that have a bearing on its compatibility with the SIB's broader objectives.

Imposing a strict 0% threshold would significantly reduce the pool of eligible managers or funds. This may mean the States of Guernsey's investment portfolios are not able to access the best strategies available to them. Within passive exposure, this may mean we rely on niche or custom-built solutions that lack scale or track record. Within other asset classes this may mean we are not able to invest in certain strategies altogether.

The consequences of this are potentially higher costs, lower performance, and greater risk,

which run contrary to the SIB's primary objective of achieving superior risk-adjusted returns.

The Board believes that our current ESG policy strikes a balanced and effective approach — minimising exposure to controversial sectors while maintaining flexibility to achieve strong risk-adjusted returns and support broader sustainability goals.

We remain open to enhancing our ESG framework and will continue to monitor exposure levels, engage with managers, and report transparently. However, we recommend not adopting a blanket 0% exposure policy at this time, given the potential trade-offs in cost, performance, and strategic flexibility.