GP Reinsurance EAD

INTEGRATION OF SUSTAINABILITY RISK IN THE INVESTMENT PROCESS

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Introduction

According to the Regulation (EU) 2019/2088 ("Sustainable Finance Disclosure Regulation" or "SFDR"), GP Reinsurance EAD publishes this disclosure containing information about the policies on the integration of sustainability risks[1] in the investment decision-making process.

For details on the diligence policies regarding Principal Adverse Impacts, please refer to the "Statement on principal adverse impacts of investment decision on sustainability factors".

Assicurazioni Generali S.p.A. is the ultimate Italian parent undertaking of the Generali Group. Belonging to the Generali Group entails also being involved in the several initiatives signed by the Group and committed to the common goals to pursue sustainable success, including all the insurance and reinsurance activities.

In particular, investments are a key aspect of how the Group conducts business. They have a significant impact on its financial performance, products, reputation and on multiple stakeholders (e. g.clients, broader society). Therefore an active integration of sustainability dimensions into investment decisions is critical.

As asset owner, Generali Group proactively integrates sustainability factors[2] into the investment process for insurance portfolios, across asset classes, thus achieving both financial returns and social more in general, shared value; through engagement and voting activities, the Group seeks to have an influence on issuers' behaviours.

Moreover, Generali Group is signatory of the United Nations Global Compact (2007), Principles for Responsible Investments (2011), Paris Agreement (2015), TCFD (2017). In line with these initiatives, for a number of years now it has been including in investment strategies also sustainability factors, without sacrificing profitability. This set-up allows the Group to have a positive impact on its stakeholders, reduce the risk for its investments and protect its reputation together with the value created over the time, consistent with its fiduciary duty.

[1] Sustainability risk refer to an environmental, social or governance event or condition that, if occurs, can cause an actual or a potential material negative impact on the value of the investment.
[2] Sustainability factors refer to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

1 How Generali integrated the sustainability risk into its investment process

A sustainability risk means an environmental, social or governance event or condition that, if occurs, can cause an actual or a potential material negative impact on the value of the investment. The identification of sustainability risks that can have a material impact on the value of our investments is a duty toward the Group stakeholders and investors.

Generali Group formalized its commitment to responsible investment in the Investment Governance Group Policy[3] and in the "Integration of Sustainability into Investment and Active Ownership Group Guideline[4]" that include also the sustainability risks management.

The Group has defined a sustainable investment framework and adopts guidelines in order to:

- take into account sustainability risk deriving from the investment strategy and decisions;
- manage the potential long-term impact on sustainability factors deriving from its investment strategy.

The sustainable investment framework[5] is composed of four pillars aiming at:

- excluding from investments issuers, sectors or activities due to issue related to environmental social or governance factors not aligned to minimum standards of business best practice or based on international norms6 impacting on their long-term financial performance and/or exposing the Group to higher sustainability and reputational risks;
- integrating in the investment analysis and decisions, across different asset classes, the assessment of the long-term impacts on sustainability factors;
- developing sustainable thematic investments programs promoting specific environmental or social objectives;
- carrying out investment stewardship on investee companies (through voting at Annual General Meetings and/or engaging) to promote sound practices in considering sustainability factors and risk in their long term plan and business practices.

Investments linked to Insurance Based Investment Products (IBIPs) are subject to an ad-hoc framework which takes into account the specificities of such products (the investments selection is based on the sustainability preferences[7] of the policyholders and the return and risk of the investments are exclusively or mainly retained by policyholders).

The Group Responsible Investment Committee, set up in 2015 at Group Head Office Level and chaired by the General Manager, has the objective of steering the implementation of the sustainable investment framework through the definition of specific guidelines, objectives, targets.

Moreover, Assicurazioni Generali updated the Framework Resolution on Investments pursuant to Article 8 of IVASS Reg. 24/2016 integrating sustainability risks identification and management in the investment's activities at legal entity level.

1.1 CLIMATE CHANGE RISK

As mentioned by the World Economic Forum in their latest Global Risk report, the risks linked to environmental aspects are

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[3] Updated following the new requirements of the EU Del. Reg. 2021/1256.

[4] Available at the following page: https://www.generali.com/our-responsibilities/responsible-investments.

[5] According to the PRI taxonomy that the Group adopts being a PRI signatory since 2011.

[6] E.g. UN treaties, Security Council sanctions, UN Global Compact, Universal Declaration of Human Rights and OECD guidelines.

[7] Sustainability preferences refer to customer's or potential customer's choice as to whether and, if so, to what extent, one or more of the following financial instruments should be integrated into his or her investment:

- a financial instrument for which the customer or potential customer determines that a minimum pro-portion shall be invested in environmentally sustainable investments as defined in Article 2, point (1), of Regulation (EU) 2020/852 of the European Parliament and of the Council;
- a financial instrument for which the customer or potential customer determines that a minimum pro-portion shall be invested in sustainable investments as defined in Article 2, point (17), of Regula-tion (EU) 2019/2088;
- a financial instrument that considers principal adverse impacts on Sustainability Factors where qual-itative or quantitative elements demonstrating that consideration are determined by the customer or potential customer.

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increasing year after year, both in terms of likelihood and magnitude of impact. Among the different risks linked to environmental factors (which include also loss of biodiversity, cases of water and soil pollution), climate change risk is of particular relevance. Within climate change risk, climate action failure and extreme events are now considered the most important risks by the international community.

When talking about climate change and the increase of the global temperatures, two main risks categories apply, being the transition and the physical risk. If global warming is going to be limited, a change in the structure of the economy (including energy, production, transportation and agricultural systems) is required. As such, transition risk can derive from a combination of socio-economic variables, including the development of regulations, of new technologies and of consumer preferences. At the same time, even an absence or proper introduction of measures to restrict the global warming would result in physical impacts of climate change. Physical risk derives from a combination of physical variables, including increased frequency of extreme climate events such as floods, heat waves, storms, wildfires, droughts and of chronic climate events such as sea level rise that can lead to both damages and business interruptions.

Anyhow, both Climate Change risks (transition and physical risks) pose a great challenge to the society given its nature, as expressed by the IPCC[8], as a complex outcome of the interaction between the vulnerability (how susceptible a human or natural system is to adverse impacts of climate change), the exposure (presence of people, ecosystems, services, infrastructure, socio-economic and cultural activities, which may be exposed to adverse impacts of climate change) of the land to climate impacts, and the hazards caused by climate and climate change (extreme events and climate trends).

Generali considers all these elements in the assessment performed to integrate sustainability risk into the investment decision-making process.

As anticipated, transition risk derives from the transition toward a low carbon economy. Companies and businesses characterized by an elevated level of emissions during the activity or which sell polluting products, face the risk of having their assets becoming stranded (stranded assets), which means they lose their value prior to the end of their economic life. The coal power plants are the clearest example of this risk. Due to growing efforts and commitments to phase out coal worldwide, environmental regulations are increasing and influencing the cost of producing energy using coal and the public pressure reduces the demands of the electricity coming from this activity. This inevitably leads to market instability to be taken into account. Despite the increasing trend of fossil fuel prices linked to geopolitical instability and the war in Ukraine, in the long term we estimate that environmental regulations will contribute to the devaluation of these particularly polluting assets, i.e. reduce their value before the time. This can have an important impact on in our investments and we want to manage this risk carefully.

In order to manage the transition risk and in particular the risk of seeing the assets of the companies in our portfolio reduced, from 2018 Generali adopted a Climate Change strategy (https://www.generali.com/our-responsibilities/our-commitment-to-the-environment-and-climate) that has the aim to ensure that the main activities of the Group, i.e. the investment and underwriting activities, as well as the operational activities, are conducted in order to manage the risks and seizing the opportunities deriving from the 'just' transition towards a low-carbon economy, integrating the social dimension into the climate strategy to minimize the impact on affected workers and their communities through the adoption of protective measures.

The concrete application of this Strategy for the investment activities as an asset owner focuses on three main elements: i) increasing the weight of sustainable thematic investments (green and sustainable asset); ii) reducing exposure to carbon-intensive issuers (exclusion criteria); iii) methodically measuring and reducing its own carbon footprint (portfolio decarbonization).

For what concern the objective of increasing the weight of sustainable thematic investments, the Group has set a target to make new green and sustainable investments of € 8.5 - € 9.5 billion by 2025, in addition to those already in its portfolio at the end of 2020.

For what concerns the objective of reducing exposure to carbon-intensive issuers, the Group is committed to the phase-out of investments in the coal sector by 2030 for OECD countries and by 2040 for the rest of the world. To this end, starting from June 2021, Generali introduced stricter exclusion thresholds for coal-related issuers.

Moreover, Generali is committed to progressively reducing its exposure to the unconventional oil and gas sector with respect to exploration and production activities (i.e. the upstream segment) in addition to some specific midstream activities, to support the goal of reaching a carbon-neutral investment portfolio by 2050. Effective 1 January 2023, Generali has extended the exclusion policy both to issuers involved in exploration and production of oil and gas extracted by fracking (shale oil, shale gas, tight oil, tight gas) and to issuers with onshore and offshore exploration and production activities that fall within the Arctic Circle.

[8] https://www.ipcc.ch/site/assets/uploads/2021/02/Risk-guidance-FINAL_15Feb2021.pdf

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For what concerns the objective of measuring and reducing the carbon footprint of the portfolio, Generali set specific intermediate targets by 2024 with respect to the 2019 baseline, detailed as follows:

- 25% reduction of the carbon footprint of the direct investment portfolio for listed equities and corporate bonds;
- alignment of at least 30% of the real estate portfolio value with the global warming trajectory of 1.5 °C.

The effort and the measures taken to reduce the level of GHG emissions is only part of the climate change effort. Even if the Group manages to reduce the level of emissions, it needs to face the future possibility of further irreversible changes in global climate patterns. According to IPCC, human activities are estimated to already have caused approximately 1.0°C of global warming above pre-industrial levels and, at the current rate, global warming is likely to reach 1.5°C between 2030 and 2052. The impacts of this occurrence include severe impacts on ecosystems, sea level rise and increase of extreme weather events (drought, cyclones, floods, wildfires) – so called physical risks.

The Group Risk Management function has identified climate change as one of the main emerging and sustainability risks that could impact Generali's business in the medium and long term. Therefore, appropriate identification and assessment of these risks are fundamental to evaluate their possible impacts on the business over time.

The Group Risk Management function developed a process to identify, measure, monitor, and manage climate change risk impacts on the Group's portfolios. This process covers the twofold perspective, including:

- the outside-in perspective, which refers to the financial impacts on the Group's portfolios ;
- the inside-out perspective, which refers to the impacts generated by the Group on both people and the planet.

The climate change risks are the following:

- transition risk: losses caused by variation in costs and revenues deriving from the transition to a green economy;
- physical risk: losses caused by changes in frequency and severity of climate-related natural events;
- litigation risk: losses caused by legal cases and controversies due to climate matters.

The impact of climate change risk on the Group's portfolios is assessed using the Clim@risk methodology, which allows to capture, for each reference climate scenario, the impact on the Group's exposures through the application of different levels of climate stress.

Climate scenarios describe a change in the global temperature expected at the end of the century compared to the pre-industrial period, mainly deriving from the assumptions of higher or lower emissions of CO_2 and other greenhouse gases in the atmosphere and their effect on geophysical variables that regulate the Earth's climate. The external climate scenarios selected are based on the Intergovernmental Panel on Climate Change (IPCC) and the Network for Greening the Financial System (NGFS) sources:

- 3 IPCC for geo-physical variables, used for physical risks (SSP1-2.6, SSP2-4.5 and SSP5-8.5);
- 6 NGFS for energetic and macroeconomic variables, used for transition and litigation risks (Net Zero 2050, Below 2°C, Divergent Net Zero, Delayed Transition, Nationally Determined Contributions (NDC), Current Policies).

To capture the most significant expected impacts, the focus was on short, medium and long-term time horizons, respectively 2025, 2030, and 2050.

The exposures include equities, corporate bonds, government bonds and real estate assets of the general account and unit-linked investment portfolios[9]..

Climate change risk is integrated into decision-making processes through the definition of a specific framework, including limits and remedial actions in case of breaches.

For further information and results please refer to the section "Challenges and Opportunities of the Market Context - Climate change risk management framework" included in the Annual Integrated Report and Consolidated Financial Statements 2023.

[9] The perimeter of analysis excludes cash and other types of assets not relevant from a climate perspective.