Munich RE

Excerpt/public version of: Responsible Investment Guideline

Policy of Munich Re Group
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1 Objective

This Responsible Investment Guideline (RIG) outlines the general framework for Group investment activities, prescribing responsible standards and requirements that are to be upheld within Munich Re Group in order to implement our ESG (environmental, social and governance) investment strategy.

Munich Re is aware of its responsibility and impact on sustainability as a large asset owner and investor, so ESG integration and ESG criteria are key elements of our investment strategy. We use general ESG criteria which are explained in our Corporate Responsibility report (e.g. climate, biodiversity and human rights) and specific ESG criteria tailored to asset classes (e.g. energy efficiency or ESG ratings).

Munich Re is a founding member of the UN Principles for Responsible Investment (PRI) and remains committed to them. This means that we integrate ESG criteria into our investment decision-making, and our financial risk/return analyses.

In 2020, Munich Re joined the Net-Zero Asset Owner Alliance (NZAOA) and committed to ambitious carbon-reduction targets. ESG-focus investments aim to generate a positive, measurable ESG impact alongside financial returns. In line with its climate strategy, Munich Re aims to significantly increase its investment exposure in renewable energies over time.

2 Scope of application

2.1 Entities in scope

This guideline is directly applicable to Munich Reinsurance Company including its branches and representative offices.

All Munich Re (Group) entities with licenses for primary insurance, reinsurance or asset management will implement the objectives, principles and requirements as stipulated herein by adopting this guideline or by introducing an equivalent norm or by other adequate means.

Should any provision of this Guideline be contrary to local law, the latter shall always take precedence.

2.2 Subject of the norm

The RIG applies to the investment of proprietary assets of Munich Re, no matter whether they are managed by Munich Re itself, by Group Investment Management (GIM), by our internal asset managers (MEAG, MR Investment Partners) or by a third party.

In principle, this guideline focuses on the asset classes of equities, corporates, government and covered bonds, and alternative investments, with minor exceptions as detailed below. We aim to extend the scope of the RIG to encompass all assets wherever possible, depending on various factors such as asset-class characteristics, industry standards, and the constantly evolving data and analytics environment, and we will review this on at least a yearly basis.

The RIG does not apply to assets held or derivatives used to manage, cover or hedge reinsurance financial structures (e.g. hedging platforms), products sold as risk management solutions or finance products for external clients. For the avoidance of doubt, any assets/derivatives in the IFRS category "Insurance-related Investment" are out of scope of the RIG and are instead subject to the guidelines applicable to the Munich Re insurance business.

The management of certain investment products (e.g. Venture Capital, ETFs, etc.) cannot be fully controlled by Munich Re, GIM, MEAG or another asset manager assigned with managing Munich Re's assets. For these investment products, compliance with RIG requirements, e.g. exclusions, cannot be ensured. We aim to identify these investment products and apply "best effort" ESG processes to them as far as possible.

3 ESG integration

The systematic integration of ESG criteria into our investment management activities is a fundamental component of our investment strategy.

It is our conviction that integrating ESG criteria into investment decisions contributes to a better, more holistic risk management of the assets we own. Our belief is that ESG integration leads to higher risk-adjusted returns over a market cycle. We combine various approaches of ESG integration across our investment value chain, from the strategic asset allocation through to asset management, such as ESG focus investing (which e.g. aims to contribute to climate change mitigation), norm-based exclusion criteria (e.g. banned weapons), holistic stewardship practices including engagement and proxy voting activities, and the inclusion of ESG criteria in financial analysis. This helps us to identify risks and opportunities beyond standard financial analysis.

Our ESG teams within GIM and our asset managers work closely with ESG experts when integrating ESG into our investment processes. External ESG data providers supply us with issuer-specific ESG ratings (also including specific ESG aspects e.g. climate, human rights and biodiversity), ESG KPIs (e.g. CO_2 emission data), and issuer specific business activity as well as screening of controversial topics, according to our needs. We use ESG research data in our financial analysis and as input when screening investments with regard to specific ESG topics such as exclusion criteria. ESG research data contribute to our understanding and assessment of ESG risks and opportunities. It also serves as input to screen the majority of our assets for specific ESG criteria.

3.1 ESG approach

ESG criteria can only be integrated into the investment process if they are made transparent through corresponding data and analysis. We aim to constantly increase transparency of ESG criteria by screening listed assets for issuer ESG ratings and analysing specific ESG criteria for alternative assets.

Regarding liquid assets

For liquid asset classes such as equities, corporates, government or covered bonds, we enable an ESG screening for the vast majority of these assets. We aim to cover over 80% of these assets on a Group level with ESG screenings, i.e. a minimum of 80% of these assets should have an ESG rating. We assess this at the group level, i.e. individual legal entities can exceed or fall short of the 80% level as long as the overall 80% is exceeded.

The ESG rating is designed to measure a company's resilience to long-term environmental (including e.g. climate and biodiversity), social (including e.g. human rights) and governance risks. ESG screening aims to identify ESG leaders and laggards in listed asset portfolios. The ESG data provider must use a rule-based methodology to identify industry leaders/laggards according to ESG risks. We aim to identify ESG tail risks, which may materialise in significant losses at issuer and/or portfolio level. We believe that ESG ratings enable a robust risk assessment and holistic investment decision.

For mortgage loans the lending policy is extended by an evaluation of self-obligating ESG exclusion criteria in the assessment process. This risk oriented perspective includes the alignment of the lender and collateral with environmental criteria as well as transparent and legally compliant investment structures. The responsible use of the real estate is additionally required. Investments that are in conflict with the defined self-obligating ESG criteria are rejected.

Concerning investing in new strategic participations, we consider ESG criteria as part of the due diligence process.

Regarding alternative assets
In the field of alternative assets, we have defined ESG focus investments that aim to contribute to e.g. climate change mitigation. We integrate ESG criteria in the investment processes of alternative asset classes as described below and we continuously aspire to provide "best effort" ESG processes as far as possible.

For our new investments in private equity, private debt and infrastructure funds, we check whether the general partner (GP) has signed the PRI or whether the GP has its own ESG policy. Depending on the product/investment, this is done by either GIM or MEAG. The majority of our new investments should meet this expectation.

When making direct infrastructure investments, we assess new investments within the due diligence process using a catalogue of ESG criteria (including e.g. climate, biodiversity and human rights). The ESG assessment is also part of the risk management second opinion compiled by our internal asset manager MEAG.

Our internal asset managers must check the ESG criteria of direct real estate investments in advance as part of the due diligence. Wherever possible, a carbon footprint should be available for the investment.

Investments in agriculture must be checked by GIM in advance as to their ESG compatibility, and in detail as part of the due diligence performed by the internal asset manager.

3.2 Carbon reduction targets

In December 2020, as part of our Munich Re Group Ambition 2025, Munich Re set ambitious decarbonisation targets for the asset classes of equities, corporates and real estate, based on the target setting framework of the NZAOA. As an intermediate step, we aim to reduce net greenhouse gas emissions in the Group's investment portfolio (equities, corporates and real estate) by 25% to 29% by 2025, in order to achieve net-zero emissions by 2050. We have also set specific reduction targets for 2025 for equities and corporates in the coal (–35%) and oil and gas (–25%) sectors. We assess this at the group level, i.e. individual legal entities can exceed or fall short of the target as long as the overall target is exceeded.

3.3 Exclusions and restrictions

To further ensure ESG alignment within our investment value chain, we define exclusions from the investment universe to avoid undesirable activities that do not fit our ESG strategy. We also single out sectors for careful analysis that may have to be restricted due to their CO_2 footprint.

Regarding listed issuers

We exclude listed issuers based on the following topics:

– Banned weapons
– Coal
– Oil sands
– Bonds from governments and government-related institutions in countries with a poor ESG rating

Exclusions are managed through the centrally managed “listed issuer exclusion lists”, which are binding for all of our asset managers.

Banned weapons

Certain weapons have been banned under international conventions because of their potential for causing harm to civilians. As a responsible investor, Munich Re seeks to support the international conventions.

The term banned weapons shall mean anti-personnel mines and cluster munitions. This is in accordance with the corresponding UN Conventions (“1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction“ ratified by Germany on July 23, 1998 and the “Convention on Cluster Munitions (CCM)“ ratified by Germany on July 8, 2009).

Investments in equities or bonds of companies that produce banned weapons are not permitted.

Coal

Since thermal coal generated power is responsible for two-thirds of the emissions that come from the energy sector globally, we see reducing thermal coal as a major accelerator for reaching net-zero. The firing of thermal coal for energy is the single largest contributor to man-made global temperature increase (see “Position Paper: Thermal Coal” by the NZAOA).

In its investment portfolio, Munich Re aims to achieve net-zero emissions by 2050. Munich Re’s target is to reduce emissions from financed thermal coal mining or power generation by 35% by 2025, and to fully exit investments in thermal coal by 2040.

Investments in equities or bonds of companies that derive more than 30% of their revenues from thermal coal mining and/or the generation of electricity from thermal coal firing are not permitted. Investments in equities or bonds of companies that derive between 15% and 30% of their revenues from these activities are either excluded or in selective cases engaged via a dialogue with the respective companies. Our internal asset manager MEAG engages the companies, either collectively (e.g. in the framework of Climate Action 100+) or individually.

Oil sands

The detrimental effects of extracting oil from oil sands (also known as tar sands) can be significant for the environment and local communities. Among other things, extracting oil from oil sands consumes more energy and resources than the extraction and refining of conventional oil, and it is among the most carbon-intensive methods of crude oil production.

For this reason, Munich Re does not invest in equities or bonds of companies that derive more than 10% of their revenues from the mining of oil sands.

Bonds from governments and government-related institutions

Specific government ratings aim to complement traditional government debt analysis when analysing a country’s creditworthiness, by providing a long-term view on ESG criteria and risks. These ratings identify the country’s exposure to and management of ESG risks, as these factors have an important bearing on the long-term competitiveness and sustainability of a country’s economy and, in turn, on the attractiveness of the country as an investment destination.

For this reason investments in government bonds and bonds of government-related institutions of countries rated "CCC" by MSCI (ESG Rating scale AAA-CCC) are not permitted.

Regarding the alternative assets portfolio
For the following alternative assets we apply certain exclusions or require certain standards:

- Food-related commodities
- Forestry investments
- Infrastructure investments

Food-related commodities
Munich Re sees investments in food-related commodities critically from an ESG perspective, as they may cause social imbalances. Food-related commodities (as defined below) are seen as critical and therefore any investments in them are prohibited.

For this reason, we do not trade or hold investments in food-related commodities (e.g. grains and oilseeds, livestock, dairy, etc.) or related derivatives. This prohibition does not apply to the farming and/or leasing of farmland and forest.

Forestry investments
Forestry is becoming a key element in the discussion about reducing global carbon emissions. The 2015 Paris Climate Agreement and subsequent studies on the role that forests can play in mitigating climate change, as well as the EU's Action Plan on sustainable finance, could spur the flow of more institutional capital into forestry.

We want to achieve sustainable management of forests. From Munich Re's perspective the sustainable management of forests leads to a compensation of carbon emissions. Here we focus on the asset managers and analyse their respective certifications, placing specific demands on them: Munich Re stipulates that asset managers must ensure that the management of all certifiable forestry investments is certified by Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification (PEFC), or equivalently within 5 years of acquisition. Forestry investments that will not meet this requirement are not allowed.

Infrastructure investments
With regard to infrastructure investments we are aware of the problematic effects of arctic drilling in oil and gas exploration. Therefore, direct investments in oil and gas exploration and drilling within the Arctic region, as specified by the AMAP (Arctic Monitoring and Assessment Programme) and AHDR (Arctic Human Development Report), are not allowed.

Additionally, a complete exclusion of thermal coal, oil and oil sand related projects applies to new direct infrastructure investments.

Regarding sensitive sectors
Beside the above-mentioned exclusions, we also select sensitive investment sectors, which we analyse very carefully from an ESG perspective. This additional research and monitoring focuses on our climate strategy, developments in the business activities of the companies we are invested in and the changing regulatory environment. Currently, our focus is on the oil and gas sector. Further sectors could be added going forward.

Oil and gas
The oil and gas sector faces an increasing need to understand the implications of the energy transition for its operations and business models, and to explain the contributions it can make to reducing greenhouse gas emissions and achieving the goals of the 2015 Paris Agreement. As this is a crucial sector, Munich Re Group has defined a separate CO_2 reduction target (–25% reduction by 2025) for it.

We strictly screen the issuers in question. Within our engagement activities we are in dialogue with oil and gas companies to ensure they are on a transition pathway. If we do not see an improvement in our regular screening and evaluation of the companies' targets, we successively reduce our corresponding investments.

3.4 ESG focus investments

We call investments that positively contribute to our ESG strategy, ESG focus investments. Currently, these are renewable energy investments, certified real estate investments, forests with certified management and green bonds, which are at the moment all linked to environmental aspects. In the medium-term, we aim to extend the range of these ESG focus investments amongst others to accord with regulatory developments, specifically with regard to the classification of investments according to the EU taxonomy.

Renewable energy investments
We look to invest in renewable energy investments to promote the energy transition. We define renewable energy investments as investments into energy production facilities and related infrastructure (e.g. including power, heat, fuel production, storage and grids) based on renewable energy sources (e.g. including solar, wind, geothermal and hydro energy). We aim to increase our investments in renewable energy up to €3 billion by 2025.

Certified real estate investments
We define certified real estate investments as those which are certified by "EU Green Building", "Building Research Establishment Environmental Assessment Method (BREEAM)", "Leadership in Energy and Environmental Design (LEED)", "Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB)" or that have other equivalent certifications.

New direct real estate investments must obtain an ecolabel or a recognised level of certification. If an investment property is not certified, the ESG Circle of Real Estate (ECORE) score can be used as an alternative for Europe and North America.

It is also necessary to ensure ESG compatibility of optimisations/revitalisations of existing properties. Measures to achieve the mentioned certifications are highly recommended in order to improve the sustainability of the existing portfolio.

Certified forest management
We define forest investments as certified forest management, if the management is certified by FSC, PEFC or an equivalent certification. Sustainable forest management is the key target of any forest investment. The asset manager assesses each investment individually using ESG criteria during the due diligence.

ESG criteria shall also be promoted and integrated into all of the ongoing management activities. Independent reviews of applied management practices from FSC, PEFC or equivalent certifiers are of utmost importance, as they verify sustainable ongoing forest management activities.

Green bonds
We understand green bonds as bonds which are linked to investments like renewable energies, sustainable waste management, biodiversity conservation or sustainable land use. Currently, we use the data provider WM to classify green bonds. This classification is based on the issuing documents, stock exchange announcements or information from parties involved in the issue (e.g. lead managers).

The current approach will continuously be refined taking into account the changing regulatory environment.

3.5 Stewardship approach

We engage with companies in which we have invested to promote high sustainability standards. Our stewardship activities include:

- engaging with investees or issuers,
- holding them to account on defined material issues,
- collaborating with others (e.g., NZAOA, Climate Action 100+); antitrust regulations must be complied with,
- exercising rights and responsibilities.

One focus area of our stewardship activities is our ESG strategy. It contributes to fulfilling the Paris Agreement.

Roles and responsibilities
GIM sets the framework for the engagement and voting activities of our asset managers. As our internal asset manager, MEAG fulfils most of the stewardship activities in close contact and guidance with GIM. External asset managers are expected to carry out their own stewardship approach and regularly have to report on their activities.

The ESG Investment Committee sets stewardship targets (e.g. company engagements) with a focus on meeting climate investment goals, sustainability risks, controversies and opportunities as well as general stewardship matters that protect the investment interests of Munich Re. These goals are reviewed on a regular basis. The ESG Investment Committee decides on investment consequences for specific holdings where stewardship goals are not met.

Scope
Our stewardship activities focus on engagement with our current and potential investees or issuers according to a selection of companies which is discussed in the ESG Investment Committee. Stewardship will be performed via corporate engagement and proxy voting for equities. Corporate engagements are performed directly and/or via collaborative engagements. For equities, MEAG is instructed to exercise and disclose proxy-voting rights at the annual general meeting on behalf of Munich Re.

Approach
In the engagement dialogue, we address material topics for the engagement like high standards of corporate governance, and responsible management of environmental and social aspects. One focus is on climate-related topics relating to the targets set within the climate strategy.

GIM analyses invested companies and engagements are chosen in relation to material CO_2 emissions, climate strategy and issuer goals. Our climate strategy places special focus on the sectors coal and oil and gas.

Engagement
Our Group-internal asset manager MEAG engages target companies either individually or via collaborative engagements. One platform of collaborative engagement is Climate Action 100+, joined by Munich Re and MEAG in 2020, as we are convinced that positive change is achieved through a constructive dialogue with our investees and issuers. Our engagements – done by MEAG Credit Research – target a lasting improvement of ESG and the climate risks and opportunities of companies we invest in.

Voting activities
MEAG is required to exercise voting rights at the annual general meeting on behalf of Munich Re. Details regarding our framework related to voting activities are made transparent in the Proxy Voting Guideline of MEAG as are the voting results.

Reporting and disclosure
GIM oversees all engagement and voting activities and monitors their progress by setting a framework for reporting. Regarding engagement: All asset managers are required to report to GIM on a yearly basis (also ad hoc where necessary), this will be discussed in the ESG Investment Committee. Regarding voting disclosure: All voting decisions made by MEAG are explained and records of these voting decisions are publicly available.

4 ESG governance

Our ESG strategy and the communicated climate strategy are of particular importance for Munich Re Group. As a consequence, the strategic decisions are made at board level. Sensitive issues which could lead to reputational risks have to be dealt with by adhering to the risk management and compliance processes.

4.1 Organisational structure

Dedicated committees reflect the ESG strategy in the organisational structure of Munich Re Group. Within our investment community there are dedicated ESG teams within GIM and our internal asset managers MEAG and MR Investment Partners.

Within GIM, which is under the responsibility of the Group CIO, there is a dedicated ESG team in the group GIM 1.1.1. This ESG team represents the interests of the asset owner Munich Re Group and works closely with the ESG teams of the asset managers MEAG and MR Investment Partners.

4.2 Sensitive investments

Dedicated Munich Re teams dealing with investments and insurance business (e.g. ESG teams, ESP, risk management, corporate underwriting) monitor various sensitive and controversial issues. Position papers deal with ESG risks, the corresponding risk management and mitigation options and the current status of scientific evidence and discussion in the ESG community. These include the topics of fracking, mining, agriculture and forestry.

Munich Re understands reputational risk as a risk of possible damage to Munich Re Group's reputation, which arises as a consequence of a negative public perception, deteriorated rating or company value, etc. Reputational risks commonly occur together with other types of risk.

The existing processes of the risk management policy/compliance policy and its rules of procedure must be complied with. This also applies in the event of potential reputational issues.

4.3 Third party asset managers

A major aspect of our ESG strategy is that we only work together with asset managers that have dedicated ESG capacities. Munich Re selects asset managers using a defined questionnaire including ESG criteria. Munich Re only selects asset managers who are UN PRI signatories or in the process to become a signatory. On a regular basis, we monitor and review the ESG strengths and weaknesses of asset managers, and their compliance with the defined Munich Re criteria. They also have to follow the Munich Re exclusion list for listed issuers. Furthermore, Munich Re requires its asset managers to provide sufficient transparency on ESG investment integration. Transparency is requested on a regular basis, for example through ESG reports and in direct reviews and dialogues.

5 Entry into force, review and updates

The CIO can authorise changes in order to meet new legal or supervisory requirements or make simple editorial changes to the RIG.

However, any material changes such as changes or extensions in relation to responsibilities or significant changes to the scope of application of the RIG must be approved by the ESG Committee. The subsequent adaptation of this guideline has to be signed-off by the CEO and the CIO.

6 Definitions

In this Guideline, the terms and abbreviations used have the following meanings:

ETF	Exchange Traded Fund
ESG	Environmental, Social and Governance
ESP	Group unit “Economics, Sustainability & Public Affairs”
GIM	Group unit “Group Investment Management”
NZAOA	Net Zero Asset Owner Alliance
PRI	Principles for Responsible Investment
SAA	Strategic Asset Allocation