Being a responsible investor

We integrate environmental, social and governance (ESG) criteria across our investment portfolio. Our approach is based on the three strategic pillars Enhancement, Inclusion and Exclusion.

“We make the world more resilient” is Swiss Re’s vision. More than ten years ago, our Asset Management unit embarked on a journey to not only generate risk-adjusted, stable long-term returns, but to also consider environmental, social and governance (ESG) aspects in our investment decisions. With this approach, our Asset Management has contributed to the Group’s vision.

In 2017, we reached a key milestone on this journey. As one of the first re/insurance companies, we integrated ESG benchmarks into our investment portfolio, which was a significant step forward from considering ESG as an “add-on” approach. A year later, we are even more convinced that taking ESG criteria into account has a positive impact on the performance of our investment portfolio in the long-term.

Responsible investment approach

The cornerstone of our investment philosophy continues to be asset-liability management (ALM). To meet future claims and benefits, we invest the premiums generated by our underwriting activities in assets whose cash flows match the durations and currencies of our re/insurance liabilities. Therefore, we generally invest more in higher-quality fixed income securities with stable long-term returns. At the end of 2018, such investments accounted for 82% of our total assets under management1 (see graph on page 35).

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1 Asset classes considered are government bonds, credit, and mortgages and other loans.
Including ESG criteria into the investment process makes economic sense, especially for long-term investors, as it improves risk-adjusted return profiles and hence reduces downside risks.

We consistently integrate ESG considerations along the three pillars Enhancement, Inclusion and Exclusion, of which Enhancement is strategically the most meaningful for Swiss Re.

Enhancement
This pillar refers to the systematic integration of ESG criteria along the investment process, from portfolio definition to monitoring and reporting. As part of our active risk management, we announced in 2017 that we had switched to ESG benchmarks.

These have been adopted in our investment mandates and consist of better-rated companies from an ESG perspective. This allows us to have both the right measurement and appropriate incentives for our portfolio managers in place. If benchmarks are not applicable, a minimum ESG rating threshold is applied to our mandates. For actively managed listed equities and corporate credit mandates, external managers have limited leeway to invest into securities they deem to have a positive ESG trend but are not yet included in the benchmark (see overview on page 36). At the end of 2018, approximately 45% of our investment portfolio was managed externally, and more than 96% of those assets were managed by PRI signatories.
### Being a responsible investor

**OVERVIEW OF MAJOR ASSET CLASSES IN SWISS RE’S ASSET PORTFOLIO AND ESG CONSIDERATIONS**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>ESG Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government bonds</td>
<td>- Investments hold an ESG rating of BB or better&lt;br&gt;- Green bond mandate considering ICMA Green Bond Principles</td>
</tr>
<tr>
<td>Credit</td>
<td>- Active mandates benchmarked against ESG BB and better indices with limited leeway to deviate from the benchmarks&lt;br&gt;- Reinvestment universe of buy-and-hold mandates restricted to ESG rating BB or better&lt;br&gt;- ESG inclusion in infrastructure loans</td>
</tr>
<tr>
<td>Listed equities</td>
<td>- Active mandates benchmarked against MSCI ACWI ESG Leaders Index restricted to BB and above and limited leeway to deviate from it</td>
</tr>
<tr>
<td>Private equity</td>
<td>- New investments are only made into Private Equity funds, which adhere to ESG guidelines&lt;br&gt;- Swiss Re reviews ESG performance and compliance for each potential investment</td>
</tr>
<tr>
<td>Real estate</td>
<td>- ESG regarded as an important metric for the portfolio. Attractive initiatives that offer a high ESG impact are considered for both new acquisitions and the existing portfolio&lt;br&gt;- Benchmarked against different sustainability standards depending on the location of the property (Minergie standard, GreenGuide best practice, GreenPrint Environmental Management Platform, LEED certifications, GRESB scoring)</td>
</tr>
</tbody>
</table>
For our real estate portfolio, we focus on certified buildings, such as the Minergie label in Switzerland, or the world-wide known LEED certification. By the end of 2018, the value of our Minergie-labelled buildings reached USD 0.4 billion, or 23% of our Swiss portfolio. Furthermore, we also invest in the US, UK and Australian real estate markets, reaching a total size of USD 1.7 billion by the end of 2018.

The investment managers’ approach to sustainability includes “GreenGuide: Sustainable Property Operations”, a best-practice guideline for sustainable and efficient real estate operations; “ULI GreenPrint Foundation”, a global environmental management platform; and “LEED Certification” from the U.S. Green Building Council. We also benchmark our US portfolio against GRESB, an industry-driven organisation transforming the way capital markets assess ESG performance of real asset investments. Our US portfolio outperformed the GRESB average of 68/100 with a score of 78/100.

Executing our shareholder rights is another part of Swiss Re’s commitment to being a responsible investor. To reflect this pledge in our voting behaviour, we have defined principles in our Asset Management Voting Policy. See: www.swissre.com/our-business/managing-our-assets/Responsible-Investments-Shaping-the-future-of-investing.html

Inclusion
Thematic investments are an ideal approach to tackle specific sustainability topics. We mainly target investments that contribute to a low-carbon economy. An effective way to do this is by investing in infrastructure renewables and green bonds. As the latter is more of a concept than a specific investment class, we use the Green Bond Principles (GBP) from ICMA as guiding principles for our investments. In 2018, we reached our green bond target of at least USD 1.5 billion by holding USD 1.6 billion per year-end.

... as well as social infrastructure such as hospitals.
Infrastructure is an attractive asset class for our investment portfolio given its credit quality and inherent liquidity premium. Any of our infrastructure investments is assessed against a catalogue of ESG parameters to evaluate the underlying sustainability risk.

- 21% of our infrastructure investments are allocated to renewable energy, such as wind farms and solar panels.
- 23% of our infrastructure investments are allocated to social infrastructure, such as hospitals, student dorms or affordable housing projects.

In our 2018 Financial Report, we further disclose information on our climate change-related investment risk exposure (pages 172–189).

Exclusion
We apply a number of pre-defined criteria and qualitative standards that may lead to the exclusion of a company or a country from our investment scope if they do not meet these criteria and qualitative standards. Swiss Re’s Sustainability Risk Management team develops and updates the Group-wide exclusion lists of countries and companies based on the Sustainability Risk Framework. Further information is available in this report on pages 27–31.

In order to mitigate the risk of stranded assets in light of an accelerating transition to a low-carbon economy, we avoid investments in companies that generate 30% or more of their revenues from thermal coal mining or that use at least 30% thermal coal for power generation. We also divested from companies with more than 20% revenues from tar sands operations.

Responsible investment governance framework
Our Asset Management operates within a well-defined framework. Strong governance is key to bringing ESG considerations into the investment process in a structured and controlled way. Our approach to responsible investment is based on clear principles, procedures and responsibilities.

The Swiss Re Responsible Investing Policy defines our approach to responsible investing, specifies roles and responsibilities in the organisation, and defines implementation and monitoring standards for ESG criteria in the Group’s investment portfolio.

The policy is reviewed periodically and updated if required. It is complemented by the Swiss Re Asset Management Voting Policy, which provides guiding principles that apply to all our voting activities.

Swiss Re’s Head Responsible Investing (Head RI) develops and coordinates the implementation of the ESG strategy within the unit. As part of this role, the Head RI steers the ESG Advisory Board, a committee formed by representatives of all investment units as well as Legal, Compliance and Group Risk Management. The ESG Advisory Board reports on responsible investment activities in the various investment units, develops and reviews improvement ideas, shares knowledge and monitors implementation progress.

The Asset Management Investment Committee reviews and discusses Swiss Re’s responsible investment approach and advises the Group Chief Investment Officer on related decisions and improvements.

The overall responsibility for our ESG approach lies with the Group Chief Investment Officer who signs off investment decisions within the Group’s Strategic Asset Allocation.

CONTENT IN THE 2018 FINANCIAL REPORT
For more information, see our Climate-related Financial Disclosures, pages 172–189.
How we engage

Voting
We believe that ESG considerations, especially good corporate governance and transparency towards shareholders, are key drivers for sustainable value creation. We recognise our shareholder rights and responsibilities as an integral part of our commitment to responsible investment. We review our constitutive voting principles periodically to keep them aligned with best practice.

In the case of internally managed equities, we make use of our influence as a responsible shareholder by directly exercising our voting rights. For externally managed portfolios, we work with the relevant portfolio managers to execute our proxy votes and related engagement activities.

We review the voting policies of external managers during the due diligence process to confirm compliance with our policy. In addition, external managers are required to report on voting activities conducted on Swiss Re’s behalf.

In 2018, we exercised 97% of our voting rights of our listed equity portfolio. We voted on 4 363 voting items through our external managers. We voted in line with the respective management resolution recommendation in 3 770 cases (86%) and against it in 529 cases (12%). In 59 cases (1%), we abstained from voting. The remaining votes were withheld.

In addition to shares in listed companies, investments in our equity portfolio include equity exchange-traded-funds (ETFs). The fund managers cast votes on these ETFs for all investors in accordance with the fund managers’ own voting policies and processes.

Promoting responsible investing
Shifting the large institutional asset base towards sustainable investments would mark a big step forward in making the world more resilient. Swiss Re’s brand promise “We’re smarter together” is also applicable to responsible investing. We interact with policymakers and other market participants to promote ESG considerations in the investment process. As an example, we contribute to the European Commission’s Technical Expert Group on Sustainable Finance by participating in the development of climate transition and Paris-aligned benchmarks and reporting needs for ESG benchmarks.

As an active member of the OECD’s long-term investor network, we also engage in the development of policy proposals with regard to sustainable infrastructure and ESG.

Knowledge sharing is another key aspect of promoting responsible investments. We offer all Asset Management employees various internal ESG training opportunities to ensure consistent know-how across the Group. Furthermore, we are in an ongoing dialogue with other industry participants to develop ESG as a standard investment approach.

In 2018, we launched the new publication “Responsible Investments – The next steps in our journey” to share our experiences about switching to ESG benchmarks after one year (see on the right). The publication builds on its predecessor “Responsible investments – Shaping the future of investing”, released in 2017.

Swiss Re first formalised its commitment to responsible investing in 2007 by signing the UN Principles for Responsible Investment (PRI). In 2012, we signed the Principles for Sustainable Insurance (PSI), a further step to formally endorse our commitment to corporate responsibility. Both the PRI and PSI are taken into account within our comprehensive responsible investment framework. All PRI signatories are required to provide in-depth reporting on their responsible investment activities. For the third time in a row, we received the highest score for our overarching (“Strategy and Governance”) approach to responsible investing in 2018. The reports are available on the PRI website at www.unpri.org/signatory-directory/

We also became a member of the ICMA Green Bond Principles in 2017. This reflects our view that the industry needs a more standardised responsible investing market environment with agreed definitions, standards, methodologies and best practices to move the long-term investor base further towards systematic ESG integration.