Being a responsible investor

2020 highlights:

- Held USD 2.6 billion in green, social and sustainability bonds at the end of 2020, which is more than 50% of our 2024 target of USD 4 billion.
- Set a target to increase our social and renewable infrastructure portfolio by USD 750 million by the end of 2024.
- Implemented our newly developed Engagement Framework in collaboration with our listed equities managers.
- For a full overview of highlights per asset class, see page 47.

Through the Inclusion cornerstone of our Responsible Investing strategy, we make investments into social infrastructure, for example schools and student dorms.

We are convinced that integrating environmental, social and governance (ESG) considerations into our investment portfolio makes economic sense. Our Responsible Investing strategy is based on the three cornerstones Enhancement, Inclusion and Exclusion.

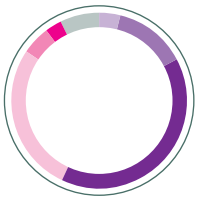
"We make the world more resilient" is Swiss Re's vision. More than ten years ago, our Asset Management unit embarked on a journey to not only generate risk-adjusted, stable long-term returns, but to also consider environmental, social and governance (ESG) aspects in our investment decisions. With this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

Highlights among our achievements include the switch to ESG benchmarks in 2017, the selection to the PRI Leaders Group in 2019, the significant reduction in the carbon footprint of our corporate bond and listed equities portfolio since the start of measurement in 2015, and our net-zero commitment in 2019 in conjunction with co-founding the UN-convened Net-Zero Asset Owner Alliance.

Our Responsible Investing strategy

Asset-liability management (ALM) continues to be the foundation of our investment philosophy. 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 the majority of our portfolio in higher-quality fixed income securities with stable long-term returns. At the end of 2020, such investments accounted for 69% of our total assets under management[1] (see graph below).

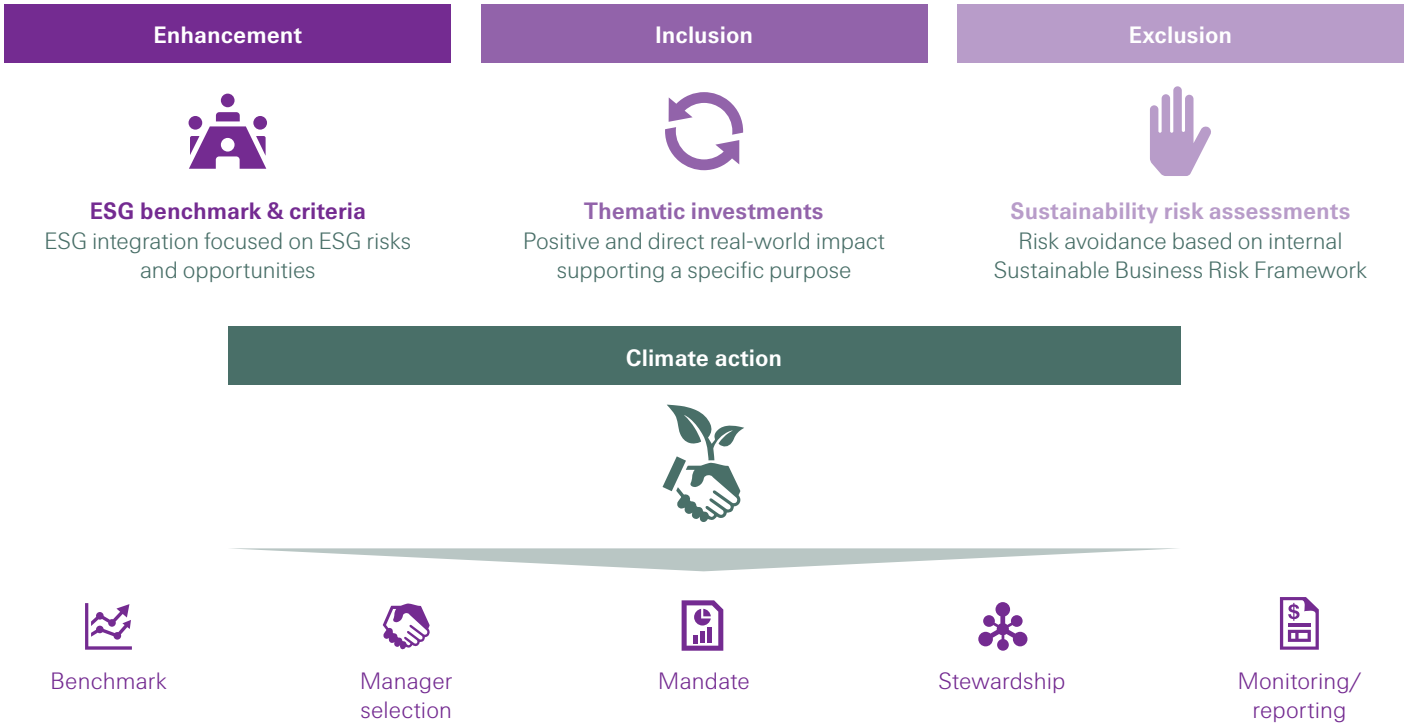
Overall investment portfolio
USD 125.7bn, as of 31 December 2020



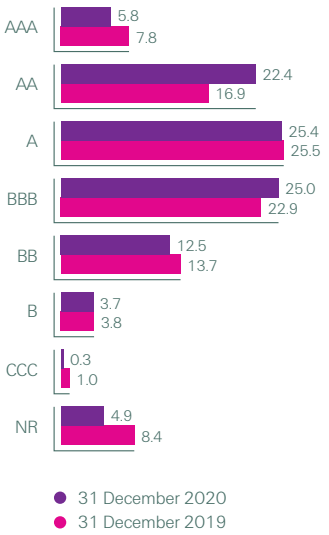
- **4%** Cash and cash equivalents
- **13%** Short-term investments
- **39%** Government bonds
- **27%** Credit bonds
- **7%** Equities[2]
- **3%** Mortgages and other loans
- **7%** Other investments (incl. policy loans)

[1] Asset classes considered are government bonds, credit bonds, and mortgages and other loans
[2] Includes equity securities, private equity, hedge funds and Principal Investments

Swiss Re's approach to responsible investing



ESG rating distribution across our corporate bond and listed equities portfolio in %



The ESG rating distribution scope for the listed equities portfolio has been adjusted to include ETFs and exclude strategic holdings.

Responsible Investing in practice

See website

Including ESG criteria along the investment process makes economic sense as it improves risk-adjusted return profiles and reduces downside risks, especially for long-term investors. Managing risks arising from climate change is another important part of our Responsible Investing approach, and comprises setting targets, taking actions, measuring and reporting.

Our Responsible Investing strategy relies on the three cornerstones Enhancement, Inclusion and Exclusion, of which Enhancement is the most meaningful for Swiss Re.

Enhancement

Enhancement refers to the systematic integration of ESG criteria along the entire investment process, from the Strategic Asset Allocation (SAA) to monitoring and reporting. Today, close to 100% of our SAA considers ESG aspects.

Swiss Re Asset Management invests in companies that are well-prepared for future sustainability challenges, by analysing their exposure and ability to manage underlying ESG risks. As part of this, we have been successfully applying a minimum ESG rating threshold of BB to sovereign, supranational and agency bonds for several years (see overview on page 47). Any possible exception to the minimum rating would be driven by ALM considerations.

In 2017, we took an important step forward for our actively managed listed equities and corporate bond portfolios: As part of our active risk management, we switched to ESG benchmarks consisting of better-rated companies from an ESG perspective. Limited leeway for deviations is given, whereby such investments are required to have either a positive ESG trend or provide compensation for the additional underlying ESG risk (see overview on page 47).

Implementing these benchmarks makes economic sense for us, as they provide downside protection while delivering better risk-adjusted returns. We regularly evaluate the performance of our ESG benchmarks against traditional benchmarks. The latest analysis is available on our website. It shows that Swiss Re's Responsible Investing approach helped to reduce downside risk amidst financial market volatility.

See website

If benchmarks are not applicable, a minimum ESG rating threshold is applied to our mandates, such as the buy-and-maintain corporate bond mandates. By consistently applying these prerequisites, we were able to further improve the ESG profile of our portfolio throughout the year, as shown in the graph on the left.

Overview of ESG considerations in Swiss Re's investment portfolio

		Enhancement	Inclusion	Exclusion	Highlights
Government Bonds	■ Investment universe requiring ESG ratings BB and better, taking ALM considerations into account ■ Green, social and sustainability bonds consider ICMA Principles and/or Guidelines	● ● ●	● ● ●	● ● ●	■ USD 1.7bn of government bonds invested in green, social & sustainability bonds[1] ■ Carbon footprint measurement implemented
Credit	■ Active mandates benchmarked against ESG BB and better index with limited leeway to deviate from the benchmark ■ Reinvestment universe of buy-and-maintain mandates restricted to ESG rating BB and better ■ Green, social and sustainability bonds consider ICMA Principles and/or Guidelines ■ ESG inclusion in infrastructure loans	● ● ●	● ●	● ● ●	■ USD 0.9bn of corporate bonds invested in green, social & sustainability bonds[1] ■ Target to increase social and renewable infrastructure portfolio by USD 750 million by the end of 2024 ■ Infrastructure loans & private placements: Fossil fuel guidelines implemented & coal avoided[1]
Listed Equities	■ Active mandates benchmarked against MSCI ESG Leaders indices and restricted to ESG rating BB and better ■ Active engagement & voting approach across active mandates applied	● ● ●		● ● ●	■ Listed equities with an ESG overlay increased by 22% pts ■ Engagement framework successfully implemented
Private Equity	■ New investments only made into private equity funds that adhere to ESG guidelines ■ ESG performance and compliance reviewed for each potential investment	● ●	● ●	● ● ◐	■ Systematic tracking of customised ESG rating ■ Impact and SDG contribution measured and reported
Real Estate	■ Benchmarked against different sustainability standards (GRESB) and certificates (MINERGIE® standard, LEED certification, NABERS rating, BREEAM certification) depending on the location of the property	● ●	●	● ● ●	■ 31% of Real Estate portfolio invested in certified buildings[1]

[1] For further information. please refer to our Financial Report 2020, TCFD section (148 –179).

● ● ● **Level of ESG integration per asset class**

At the end of 2020, approximately 35% of our investment portfolio was managed externally, and 98% of those assets were managed by signatories to the Principles for Responsible Investment (PRI).

Another important part of our Responsible Investing strategy is our approach as an active shareholder, which we describe in the "How we engage" section on page 50.

For our real estate portfolio, we benchmark our investments against GRESB, an industry-driven organisation transforming the way capital markets assess the ESG performance of real assets.[1]

Inclusion

Thematic investments are an ideal way to address specific sustainability topics. On the one hand, we target investments that contribute to the transition to a net-zero emissions economy and climate change mitigation. An effective way to achieve this is through investments in infrastructure renewables, green bonds and real estate.

On the other hand, we contribute to social improvements through investments in social infrastructure as well as sustainability and social bonds. In this context, we measure the real-world impact of our investments and align them to the Sustainable Development Goals (SDGs). We currently focus on the seven SDGs shown in the graph on page 48.

[1] Due to a change in our investment setup, the 2020 GRESB Assessment does not reflect the portfolio's performance appropriately for 2020.

Our thematic investments support the SDGs[1]

Thematic investments

Renewable and social infrastructure loans

- ≈1 200 hospital beds
- ≈120 000 students provided with school infrastructure
- ≈500 student dorm rooms
- ≈5 000 MW of installed renewable energy capacity
- ≈2 m households with access to modern energy services
- ≈66 000 affordable housing units

USD 0.9bn

Green real estate

- ≈261 000 m² of green real estate floor space

USD 1.6bn

Impact private equity[2]

- ≈115m low-income individuals benefitting from access to financial services
- ≈9 000 live-saving medical deliveries
- ≈17.5 m students educated
- ≈8m metric tons of CO_2 averted
- ≈6 m acres of land under conservation
- ≈715 000 low-income individuals provided with health insurance and products acting as safety nets for health related risks

USD 65m

Green, social and sustainability bonds

USD 2.6bn

Supported SDGs

1 NO POVERTY
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
7 AFFORDABLE AND CLEAN ENERGY
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
15 LIFE ON LAND

SUSTAINABLE DEVELOPMENT GOALS

[1] Selected metrics reflecting overall project or company impact
[2] Private equity KPIs' Impact generated by selected portfolio companies during 2019

For our green bond investments, we use the Green Bond Principles (GBP) issued by the International Capital Market Association (ICMA) as our guidance. For social bonds we use the Social Bond Principles (SBP) and for sustainability bonds the Sustainability Bond Guidelines (SBG), both issued by the ICMA too.

In total, we held USD 2.6 billion in these bonds at the end of 2020, which is more than 50% of our target of USD 4 billion, to be achieved by the end of 2024.

Infrastructure is an attractive asset class for our investment portfolio given its credit quality and inherent liquidity premium. We set a new target to increase our social and renewable infrastructure portfolio by USD 750 million within the next four years to strengthen our positive environmental and social impact. As of the end of 2020:

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

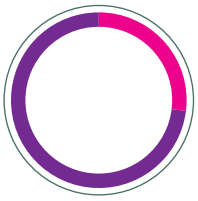
In our real estate portfolio, we focus on certified buildings, such as those adhering to the MINERGIE® standard in Switzerland. By the end of 2020, the value of our MINERGIE®-certified buildings reached USD 0.6 billion or 27% of our Swiss portfolio.

Furthermore, through our externally managed portfolio we predominantly invest in the Australian, UK and US real estate markets, reaching a total size of USD 2.0 billion by the end of 2020.

In the US, the investment manager's approach to sustainability includes ESG considerations and striving for the LEED certification from the US Green Building Council.

With our new target for investments in renewable infrastructure, we can increase our positive environmental impact while working towards achieving net-zero emissions by 2050.

Swiss real estate portfolio



- **27%** MINERGIE®-certified
- **73%** No certification

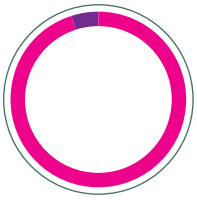
In Australia and the UK, the investment managers' approach to sustainability includes the National Australian Built Environment Rating System (NABERS) and the BREEAM certification framework, respectively.

Exclusion

Swiss Re's approach to exclusion is based on our Group-wide Sustainable Business Risk Framework, which sets criteria for what Swiss Re considers acceptable business and may lead to exclusions of companies or countries from our investment universe. Detailed information is available in this report on pages 38–41. Additionally, we consider the way companies conduct their business by screening their alignment with the ten principles of the UN Global Compact.

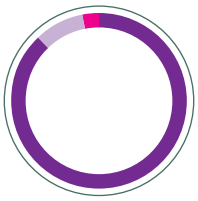
As part of the updated oil and gas policy of our Sustainable Business Risk Framework, we exclude the 10% most carbon-intensive companies in this sector. To mitigate the risk of stranded assets in the light of the accelerating transition to a net-zero economy, we also avoid investments in companies that generate 30% or more of their revenues from thermal coal mining or that use at least 30% thermal coal for power generation. We have also divested from companies with more than 20% revenues from oil sands operations. Further strengthening our efforts, we introduced an absolute coal threshold in 2019: We are committed to not investing in mining companies that produce at least 20 million tonnes of coal per year and in power utility generators with more than 10 gigawatts of installed coal fire capacity.

Our voting activities in 2020



- **95%** Votes cast
- **5%** No votes cast

Our voting behaviour in 2020



- **88%** Voted with management
- **9%** Voted against management
- **3%** Abstained
- **0%** Votes withheld

Our long-term objective for 2030 is to fully exit coal-related assets such as coal mining and coal-based power generation, for our listed equities and corporate bond portfolio via normal portfolio reallocations. To increase efforts to mitigate transition risks in our portfolio, we have also begun to limit investments in companies active in coal mining or coal-based power generation that are planning to expand their capacity. We therefore apply a threshold for capital expenditures above USD 100 million for coal mining expansion and one of 300 megawatts for coal-fired capacity, applicable to the listed equities and corporate bond portfolio.

Climate action

We pursue an integrated Responsible Investing strategy, which also includes our climate actions. Reflecting this, we co-founded the UN-convened Net-Zero Asset Owner Alliance in 2019, committing to transitioning Swiss Re's investment portfolio to net-zero greenhouse gas (GHG) emissions by 2050.

In our Financial Report 2020, we disclose further information on how we set targets, manage our climate-related investment risks and opportunities, and measure our activities in our climate-related financial disclosures (TCFD) section (pages 148 –179).

Climate-related financial disclosures (TCFD)

See Financial Report

How we engage

Stewardship

In 2020, we exercised 95% of our voting rights of our listed equity mandates. We voted on 4 807 voting items through our external managers. We voted in line with the respective management resolution recommendation in 4 225 cases (88%) and against it in 457 cases (9%). In 121 cases (3%), we abstained from voting. The remaining votes were withheld.

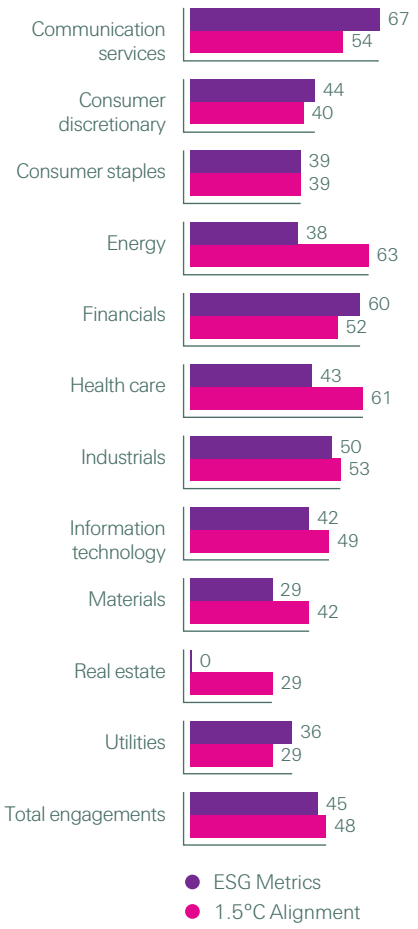
In addition to shares in listed companies, investments in our equities portfolio include equity exchange-traded funds (ETFs). The fund managers cast votes on these ETFs in line with their own voting policies and processes.

In 2020, we implemented our newly developed Engagement Framework, to support our investee companies in strengthening their business performance and achieving shared long-term goals for responsible investing.

We believe that engagement with the real economy is an integral part of our contribution to limiting global warming to 1.5°C. Through our Engagement Framework we aim to encourage companies to develop a climate strategy and formally define how they can manage related risks, ultimately preparing them for the transition to a 1.5°C economy. To this end, the newly created framework aligns well with our own commitment to transitioning to a net-zero economy and the Net-Zero Asset Owner Alliance's Target Setting Protocol.

The framework covers two engagement topics, "Improving Transparency: Disclosure of ESG Key Metrics" and "Alignment of Business Model with 1.5°C Target". It needs to be applied to all actively listed equity mandates in order to further integrate sustainability and, in particular, climate change considerations into investment portfolios. We consider these activities to be relevant to advance the transition of the real economy, as this benefits our portfolio by further reducing the risk of assets getting stranded. Standardised disclosure will increase transparency and hence enable investors to make better-informed investment decisions.

Engagement activities per sector in %



We work closely with our investment managers to execute our two engagement topics for each of our portfolio companies. Regarding engagement frequency and desired outcomes we have set targets. These allow us to monitor progress in a structured way. The framework also takes into account regulatory requirements such as the Shareholder Rights Directive 2017/828 (SRD II).

In 2020, the investment managers of our actively listed equities portfolio started to engage with 45% of our holdings on the first topic, and with 48% on the second topic. Several of the companies we engaged with were prepared to make progress in implementing the measures we had requested. In fact, by the end of 2020, between 20% and 30% of our portfolio companies had already implemented the measures asked for under the two topics.

Promoting responsible investing

Shifting the large institutional asset base towards sustainable investments would mark a big step forward in making the world more resilient. We therefore do not only collaborate with our investee companies but also with other key stakeholders to advance this process. As an example, we contributed to the European Commission's Technical Expert Group on Sustainable Finance and specifically participated in the development of climate-transition and Paris-aligned benchmarks and of ESG reporting needs for benchmarks until the end of the mandate in September 2020. Furthermore, as part of relevant industry organisations such as the Swiss Insurance Association and Swiss Sustainable Finance, we also advise on sustainable financial market developments in Switzerland.

Knowledge sharing is another key aspect of promoting responsible investing. We offer all Swiss Re employees various internal ESG training opportunities to ensure consistent know-how across the Group. We also engage with other investors to foster greater appreciation of responsible investing as an investment approach.

We first formalised our commitment to responsible investing in 2007 by signing the Principles for Responsible Investment (PRI). We have once again been recognised by the PRI for our thought leadership, having our excellent assessment result from the previous year confirmed.

As a founding member of the UN-convened Net-Zero Asset Owner Alliance, we have committed to aligning our investment portfolio with the 1.5°C goal stated in the Paris Agreement by having a net-zero emissions investment portfolio by 2050. We have therefore co-led the development of the Target Setting Protocol (TSP), which allows the setting of reduction targets to be achieved by 2025. We are also represented in the Alliance's Steering Group. Swiss Re has actively promoted the transition to net-zero emissions through the participation in WEF panels, explanatory videos and a podcast in which PRI and Swiss Re discuss the TSP.

Responsible investing governance framework

Our well-defined and strong governance is key to have responsible investing consistently integrated along the whole investment process in a structured and controlled way. For further information about our governance framework, please visit our website:

Responsible investing governance framework

See website