

Sustainable investment strategy



November 2022

Within the Deutsche Rück Group – at Deutsche Rückversicherung AG and its subsidiary Deutsche Rückversicherung Switzerland Ltd (DR Swiss) – responsibility to society is rooted in our DNA. This is particularly apparent in our high level of social engagement. We also fulfil this social responsibility when it comes to investment, by promoting sustainable economic development in the various asset classes through our investments in the global financial markets while simultaneously investing funds safely and profitably.

SUSTAINABLE INVESTMENT

Sustainability criteria play a strategically important part in the management of our investments, simply because of our long-term business model as a reinsurer. At the Deutsche Rück Group, we are also aware of our responsibility to the environment and society and therefore take sustainable investment seriously. To that end, we have integrated ESG (Environmental, Social and Corporate Governance) criteria into our investment processes. Consideration of sustainability factors has a positive effect on the development of income and plays a positive part in reducing portfolio risks. Alongside our responsibility to society, we hope to optimise the risk/return profile of our investments over the long term by taking into account ESG criteria when making investment decisions.

COMMITMENT TO THE PRI PRINCIPLES

The investors' initiative PRI (Principles for Responsible Investment), which we signed up to on 17 September 2019, serves as a framework for sustainable action in the field of investment. The six principles of PRI form the basis of our guidelines for responsible investment:

- We incorporate ESG issues into our investment analysis and decision-making processes.
- We are active owners and include ESG issues in our shareholder policies and practices.
- We demand that the companies in which we invest make appropriate disclosures with regard to ESG issues.
- We promote the acceptance and implementation of these principles in the investment industry.
- We collaborate to make ourselves more effective in implementing these principles.
- We report on our activities and our progress in applying the principles.

CLIMATE NEUTRALITY

The Deutsche Rück Group is aiming to make its entire investments greenhouse gas-neutral by 2045. We have committed ourselves to the target set out in the Paris Agreement of limiting global warming to well below two degrees Celsius compared with pre-industrial levels and gradually bringing the flows of funds into line with climate targets. We are working towards achieving CO2 reductions in our portfolios as early as 2025 and progressively continuing this beyond that date, in line with scientific findings and the availability of measurement methods.

“ACTIVE OWNERSHIP”

The Deutsche Rück Group actively influences companies’ sustainability decisions through engagement and by exercising its voting rights as part of “active ownership”. As an active investor, we lead by example and want to encourage the companies we invest in to take a sustainable approach. Practising “active ownership” is therefore an important component of our commitment to sustainable investment.

EXCLUSION CRITERIA FOR INVESTMENTS IN SHARES AND INTEREST-BEARING SECURITIES ISSUED BY COMPANIES, BANKS AND GOVERNMENTS

In our investment portfolios, we have made no new investments for several years in shares or interest-bearing securities issued by companies, banks or governments that violate the exclusion criteria we have defined. By stipulating these criteria, we prohibit investments in business practices and activities that have a negative impact on society and the environment. We have specified precise details of the exclusion criteria in an internal guideline. We monitor our portfolios on an ongoing basis to check whether there has been any breach of these exclusion criteria.

This means that we are not investing any further funds in companies or governments that do not comply with our sustainability guideline and that we are gradually reducing existing portfolios that violate the exclusion criteria. Our goal is to reduce these portfolios by at least half by the end of 2023.

To ensure that we are kept informed of the risks associated with companies and governments in our investment universe and their sustainability performance at all times,

we cooperate with an external sustainability rating agency. In particular, the analyses help us to assess the severity of any relevant incidents relating to business practices and to decide whether to exclude companies from our investment universe. We also exclude companies and governments that operate in sectors we object to on ethical grounds and in view of the associated investment risks. The decision on whether to exclude a company depends on the type and scope of business activities. In accordance with our definition, the scope of business activities is determined based on the sales that the company concerned generates in the sector in question, relative to its total sales. We have specified sales limits for certain business fields. On the other hand, companies whose business includes activities such as production of or trade in banned weapons are excluded automatically due to the nature of their activities. The volume of sales is not relevant to exclusion in such cases.

INVESTMENTS IN REAL ESTATE

It is established practice for the Deutsche Rück Group to take into account sustainability concerns when investing in real estate. We believe that socially and environmentally responsible action is closely linked to long-term economic success in real estate management. Sustainability is therefore an important criterion in our investment decision-making processes, for example during the due diligence process when purchasing properties or making indirect investments in real estate.

Overall, the Deutsche Rück Group's real estate investments can be broken down into the following three investment segments:

1. Real estate that is owned directly and participating interests in real estate

- Individual properties are held by special-purpose entities, which are wholly owned by the companies.
- Individual properties are held by special-purpose entities together with a partner and the companies are involved as majority or minority shareholders.
- Properties in our portfolio are developed by us or together with a partner.

2. Investments in real estate funds

- Participating interests that the companies hold in regulated real estate funds with diversified investments

3. Commercial real estate financing

- Companies award senior and/or subordinated commercial financing to real estate and property owners

In principle, the possibility of reviewing the ESG sustainability dimensions for the three investment segments plays a key role when determining implementation processes.

Sustainability dimensions for:	1. Real estate owned directly	2. Fund investments	3. Commercial real estate financing
Principle of application	Relates directly to the property	Relates to strategic issues and the management company	Relates to the property and the owner
Possibility of influence	Direct influence at property level	Property can be influenced only indirectly; “active ownership” through investment committee or advisory board and contact with fund manager	Only limited direct influence at property level
Integration of sustainability review	Own internal monitoring of the property, if applicable together with the property manager	Special reporting requirements to the manager	External property monitoring and monitoring of the borrower

When considering the sustainability of real estate investments within the various investment segments, we also take into account the different phases in the real estate cycle (investment, holding and exit phase).

The ESG compliance of our real estate portfolio is assessed based on the ECORE initiative (ESG Circle of Real Estate). We signed up to the ECORE initiative in 2020 and actively participate in the work groups “Residential” and “Banks and savings banks”.

The members of the ECORE initiative (reputable investors, real estate companies, banks and associations) have developed an ESG scoring standard to make sustainability in real estate portfolios transparent, measurable and comparable. This forms the basis for continuous optimisation with a view to making properties carbon-neutral.

We use ECORE to assess our direct real estate portfolio and commercial real estate financing with respect to ESG issues. Based on the ECORE score and an industry-wide comparison, we work out measures to improve the ESG characteristics of our properties.

EXTERNAL MANAGERS

All managers appointed by us must have an internal sustainability policy, which we will evaluate. We have devised our own questionnaire for the due diligence process when reviewing the sustainability concept of new and existing external managers. When compiling the questionnaire, we followed the PRI very closely. A positive result for a review of the sustainability concept is a prerequisite for a new investment. We will no longer do

business with managers with an inadequate sustainability strategy. On this basis, we have replaced funds and exchange-traded funds (ETFs) in our portfolio that were geared towards a classic benchmark with products with sustainable ESG benchmarks.

IMPACT INVESTMENTS

As part of asset allocation, we make impact investments in various asset classes. As well as generating a financial return, these investments must aim to have a positive social and/or environmental impact that is measurable and must report in a transparent manner on the achievement of these objectives. These include investments in new technologies, renewable energies and natural capital.

To ensure their continuous expansion, we have incorporated a target quota for impact investments into our asset allocation, which will increase each year. When evaluating the impact of an investment, we consider regulatory guidelines, market standards and our own assessments.

MEASUREMENT OF PERFORMANCE AND RISKS

Where possible, we have switched to ESG benchmarks when measuring performance and risks. In the case of shares, measurement of performance and risks has already changed over completely to ESG indices. With bonds, we have made the switch in selected sub-segments when a liquid ESG index was available. If ESG indices become available for the remaining segments/asset classes in future, we will gradually switch over the underlying indices used here as well. In our internal model, we also use ESG indices to measure market risks arising from investments in funds and shares.

INTEGRATION INTO THE GROUP OF PUBLIC INSURERS

The integration of ESG criteria into investment decisions is a point that is constantly on the agenda of the German public insurers' committees. A major benefit for us is that we can hold discussions within the group and learn from the experiences of the other companies. This allows us to optimise the integration process and continuously improve the sustainability performance of our investments. The German public insurers have signed up to the PRI jointly as a group and regularly discuss the integration of the standard ESG criteria stipulated by the PRI.

ONGOING REFINEMENT

We want to continuously improve the sustainability of our investments. We are therefore aiming on the one hand to be transparent about how sustainable our investments are and on the other to gradually increase the sustainability of our investments.

We would also like to extend our sustainability approach to other asset classes that are not currently covered by our sustainability strategy. Building on this, we will adjust and further refine our internal investment processes and asset class-specific investment guidelines.

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