

# Responsible Investment at Zurich

What we want to achieve and  
how we do it

April 2026



This document explains Zurich Insurance Group (Zurich)'s responsible investment approach in detail: what we want to achieve and how we do it. It outlines our responsible investment strategy and describes its three individual elements in the context of Zurich's overall approach to investment management and its sustainability strategy and objectives. It also makes reference to specific policies, procedures and practices outlined in the appendix. This document is aimed at everyone seeking to learn more about how responsible investment can be practiced by a large, global institutional investor but should also provide insight to specialists seeking to analyze Zurich's practices. The document complements our position paper [Doing well and doing good: Why Zurich practices responsible investment](#).

The first section describes the overall approach to responsible investment in the context of insurance investment practices. The following three sections describe the individual elements of this approach: 'ESG integration' (integrating environmental, social and governance factors into the investment process), 'impact investing' and 'advancing together'. Since climate change is such an important topic and impacts all of our approaches, it deserves its own chapter.

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# Section I:

Zurich's responsible investment strategy:

There is only one way to manage our assets –  
as a responsible investor

“Our approach to sustainability strives to create value for both our company and for society as a whole.”

Responsible investment means different things to different people. A clear understanding of Zurich’s approach to sustainability is the starting point for defining our responsible investment strategy.



Zurich’s purpose – create a brighter future together – inspires us to use our business model to scale positive impact for us all, as an insurer, investor, employer and in society. Our ambition influences our day-to-day decisions and our long-term planning. By using our core skills, risk and investment management expertise, we aim to:

- Be a responsible business as reflected in our corporate governance, our code of conduct, and our respect for human rights.
- Have a positive impact through our products and services, our capital, and our investment in communities.
- Integrate environmental, social and governance (ESG) considerations into our underwriting, our investment processes, and our operations.

Zurich is proud to be a committed responsible investor. We believe creating long-term, sustainable value – doing well and doing good – is not only possible but a necessary business priority. When we do ‘well’, we generate superior risk-adjusted returns for our customers and shareholders. When we do ‘good’, we have a positive impact on society and the communities where we live and work. Whether it’s helping reduce greenhouse gas emissions or helping people improve their lives, our in-house and external experts focus on improving the financial performance, transparency and positive impact of our portfolio.

Since we manage approximately USD 170 billion in own investment assets and oversee approximately USD 140 billion in unit-linked assets, by doing well and doing good, we can achieve substantial, long-term outcomes that benefit both people and the planet. On top of investment returns, we focus on three distinct outcomes: transitioning our investment portfolios to net-zero greenhouse gas emissions by 2050, as well as helping avoid 5 million metric tons of CO<sub>2</sub> equivalent (CO<sub>2</sub>e) emissions and benefiting 5 million people per year through our impact investments<sup>1</sup>.

<sup>1</sup> Further information in our [Impact Measurement Framework](#)

Our comprehensive responsible investment strategy covers the entirety of our proprietary assets, matching a variety of responsible investment tools with the asset classes where they have most practical influence. It is also applicable to many of our unit-linked offerings.

Our strategy is built on three core pillars, unified by climate action, which links risk-aware investment, targeted impact allocation, and collaborative market leadership, and is applied consistently across the Group's sustainability risk positions across the Group's investment portfolio.

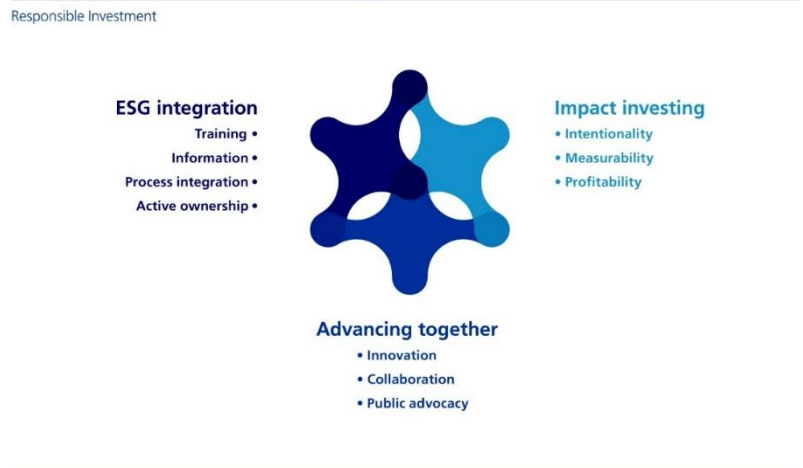
**1. ESG integration:** Proactively integrating ESG factors into the investment process – across asset classes, and alongside traditional financial metrics and state-of-the-art risk management practices – supports us in 'doing well' and in achieving our mission to generate superior risk-adjusted long-term financial returns.

Successful ESG integration is based on:

- Adequate training to help investment decision-makers understand the relevance and materiality of ESG factors.
- Access to data, research and analysis pertaining to ESG issues to inform investment decision-making.
- Formal integration of ESG factors into the security, asset and asset manager selection process.
- Active ownership practices.

**2. Impact investing:** Through impact investing, Zurich can help fund solutions to pressing social or environmental issues. Zurich is directly exposed to challenges such as climate change, resource depletion, and more. **As an insurer we have a direct interest in sustainable global economic growth and supporting communities in becoming more resilient to environmental and social challenges.** Impact investments can help address these issues in a targeted way, and also offer a financial return commensurate with risks. In view of that, we have the ambition to build an impact portfolio that helps avoid 5 million metric tons of CO2e and benefits 5 million people every year.

**3. Advancing together:** We believe that responsible investment will only truly have an impact if all financial market participants make responsible investment mainstream. We can build markets in which ESG risks and opportunities are priced efficiently, which provide the right incentives to those seeking to raise capital in the market, and in which impact investments provide capital on the scale needed to tackle the pressing social and environmental issues of our time. Supporting market-building initiatives and engaging with policymakers and others to drive the advancement of responsible investment practices thus forms an integral part of our approach.



Our climate strategy is fully embedded within our responsible investment strategy, drawing strength from the three pillars of ESG integration, impact investment and advancing together. Climate considerations are incorporated into investment decisions through ESG integration, where climate-specific data, scenario analysis and active ownership ensure that transition and physical risks are considered in portfolio construction and stewardship practices. At the same time, Zurich's impact investment activities channel capital directly into climate investment solutions, such as renewable energy, green certified buildings and clean technologies, turning our net-zero ambition into measurable real economy outcomes. These efforts are amplified through our collaborative advancing together approach, which includes working with industry alliances, standardsetters and policymakers to strengthen climate-related disclosure, transition planning and impact measurement across markets.

In addition to adhering to a groupwide approach on sustainability risk positions, our climate strategy thus ensures that climate considerations are embedded across the entire responsible investment framework, informing decisions, directing capital and strengthening the systems that support a net-zero future.

## The basis for responsible investment is a disciplined investment process



Group Investment Management has defined a clear and systematic approach to investing, supported by both industry best practice and academic research. Applying this approach globally to all investment activities is of great value to Zurich. Not only does the approach provide consistency and discipline, it also helps safeguard against investment decisions becoming pro-cyclical, that is, taking on additional investment risk during 'good times' and being forced to reduce risk by selling investments at the worst possible moment during times of market stress.

The starting point in determining the investment strategy in insurance investment management is asset liability management (ALM). This first step establishes a portfolio of investments that closely replicates the insurance liabilities, and consists primarily of duration-matched government bonds.

Such a minimum-risk portfolio will ensure that market values of assets and liabilities move in line with fluctuations in capital markets.

The optimal mix of asset classes is then determined, one that offers the highest long-term expected investment return given Zurich's liabilities, regulatory framework and allocated capital. To make this asset allocation, Group Investment Management distills all investable asset classes into a small set of easily understandable and transparent risk factors such as interest rate risk, credit risk, equity risk. Group Investment Management then works to determine the best combination of risk factors to maximize the risk-adjusted return for a given amount of capital.

Insurance investment management is relatively complex. To effectively manage investment risks relative to insurance liabilities, Zurich has a very strong focus on ALM and is required, often also by the regulator, to hold certain assets. For instance, Zurich has to hold sovereign bonds to back certain local currency liabilities. In addition, requirements to balance investment income and total return, tax considerations and other constraints exist and vary widely across local jurisdictions.

At Zurich, Group Investment Management is predominantly responsible for managing the Group's own assets. In a few instances, in-house asset management teams manage specific funds that form part of insurance products offered directly to clients. While those investments are small relative to own assets, the same responsible investment approach and processes apply to these funds. Zurich also offers its customers so-called unit-linked products, where customers are responsible for choosing investment strategies from a range of externally-provided investment solutions. In some countries, such as, for example, Switzerland and Chile, Zurich also owns asset management companies. While Zurich Group Investment Management's responsible investment approach and outcome targets are not applicable to these unit-linked and asset management businesses, we are in close collaboration with our colleagues and advise them on stating their own responsible investment approach. In a similar manner, we also advise the pension funds of Zurich's employees in various countries.

Zurich holds investments in over 800 different portfolios, on over 200 different balance sheets in over 40 jurisdictions, managed by over 40 different external as well as internal asset managers. This complexity naturally requires exceptions and limits the ability to apply specific processes and approaches in every single instance. In accordance with the reality of insurance asset management, we take due care to match the responsible investment tools at our disposal with the asset classes where they have most practical influence on value creation, risk management and positive outcomes.

More information on Zurich's overall investment approach can be found in [Investment Management: a creator of value in an insurance company](#).

## **Creating a responsible investment culture**

Navigating the complexity of insurance investment management and practicing responsible investment at the same time can only be achieved by fully integrating these responsible investment practices into the overall investment approach and making them part and parcel of everyday investment decision-making. Strategies and policies alone are not sufficient. Responsible investment must become part of the organization's culture. With time, leadership and 'learning by doing', we have already come a long way – but an inherent truth of responsible investment is that it always remains a journey of continuous learning and improvement. To accelerate and support this process, we are providing incentives to investment professionals to practice responsible investing by reflecting responsible investment in individual objectives across the Group Investment Management organization; we have incorporated responsible investment into Zurich's technical competency framework used to determine job profiles and training requirements; we have established a global group of 'responsible investment champions' representing individual teams; and we have built a small but dedicated responsible investment team that acts as a catalyst and engages with the rest of the organization on an ongoing basis.

See the [appendix](#) for details of these elements.

The remainder of this document describes the three individual elements of Zurich's responsible investment strategy as well as our climate actions and how they are implemented in the context of the overall approach.

## Section II:

ESG integration at Zurich: Capturing ESG-related risks and opportunities to enhance returns

“Zurich believes that ESG issues are best reflected at the level of selection of individual securities or assets.”

ESG factors have an impact on the risks and opportunities associated with the assets in which we invest. As a consequence, we believe that proactively including ESG factors in the investment process – across asset classes and alongside traditional financial metrics and state-of-the-art risk management practices – will support us in our mission to achieve superior risk-adjusted long-term- financial returns.

As described in [section I](#), the starting point in determining Zurich’s investment strategy is an integrated process used to define the strategic asset allocation according to ALM principles. This allocation is the result of a disciplined process that distills all investable asset classes into a small set of easily-understandable and transparent systematic market risk factors: risk factors that cannot be diversified and exposure to which the market can thus be expected to reward with a risk premium. We have so far found no evidence that ESG issues are associated with a systematic market-risk factor and premium that could be reflected in the ALM and strategic asset allocation processes. Based on this, Zurich believes that ESG issues are best reflected at the level of selection of individual securities or assets. **This approach is different from our impact investing approach that strives for creating intentional and measurable benefits alongside financial returns. Our impact investing strategy is described further in [section III](#).**

Since sustainability or ESG factors can have a material impact on the risk and return of assets, including ESG in the asset management process should heighten asset managers’ awareness of the risks and opportunities associated with these factors when making decisions on the securities or assets they select. It should also encourage conscious choices around exposures to ESG-related issues.

We follow a strict interpretation of what ‘ESG integration’ means. We only apply the approach to asset classes where sufficient ESG information is accessible, and where portfolios offer frequent turnover and enough choice of issuer for this information to steer investment decisions. Although often considered a separate responsible investment tool, we include active ownership practices as part of our ESG integration approach. More information can be found in the [appendix](#).

As an integral part of managing assets for Zurich, all our asset managers for in-scope asset classes must include the following four basic requirements in their investment approach:



## ESG Integration

- Training
- Information
- Process Integration
- Active Ownership

## 1. Training

A large number of ESG factors can potentially affect risk and return. The channels through which they affect risk and return are sometimes complex and vary from sector to sector. It is important that portfolio managers receive adequate and regular training to help them understand the economic importance and financial materiality of ESG risks and opportunities, especially as ESG has only recently – and partially – been included in business school, finance or continuing education curriculums, such as the chartered financial analyst (CFA).

## 2. Access to information

To reflect ESG issues in investment decisions, portfolio managers need access to relevant information in the form of ESG analysis, ratings and data.

This can be supplied by specialized external providers, dedicated in-house teams, or broker research.

## 3. Investment process

A clear understanding is needed about the process by which ESG considerations are reflected in asset valuation, as well as decisions to buy/sell, or overweight/underweight a certain security or asset. This process should be documented and consistently applied by our internal and external asset managers.

## 4. Active ownership

At Zurich, active ownership is defined as proxy voting and engagement. Asset managers are required to actively execute proxy votes based on best-practice policies addressing ESG issues, and to integrate relevant ESG topics, either as part of regular company meetings, or through separate channels. Zurich's proxy voting policy and guidelines are available [online](#). More details about our engagement process can be found in the [appendix](#).

For actively-managed portfolios with a focus on underlying fundamentals, these four basic requirements are particularly relevant to determine how ESG issues may impact expected risk-adjusted returns (based on the analysis of an asset's expected cash flows), associated risks, etc. Many of Zurich's investments are managed based on such 'fundamental' investment strategies. But some portfolios use other strategies, for example, a quantitative investment approach, or might passively replicate a benchmark index. For these investments, we decide on a case-by-case basis whether ESG integration can be achieved by using appropriate ESG benchmarks.

Investment Management always aims to appoint the best manager for each portfolio, whether internal or external. This ability to 'outsource' provides Zurich access to the world's best asset managers. Currently, Zurich's assets are managed by over 40 internal and external asset managers according to clearly-defined investment management agreements, objectives and guidelines, and we rely on the skill of these asset managers to build portfolios that achieve our goals. As part of this approach, we expect our asset managers to fully reflect the risks and opportunities associated with ESG factors when choosing assets for our portfolios, based on the requirements described here. It is not our objective to systematically exclude companies or assets from the investment universe. Just as we do not determine exclusion criteria based on traditional financial metrics, such as maximum price/earnings ratios or minimum interest coverage ratios, we also do not specify exclusion criteria such as minimum ESG scores or ratings. We prefer to work closely with our managers to make sure that the requirements for ESG integration are reflected in their investment processes. Having said this, a company-wide process is also in place to assess specific ethical concerns or market failures. It can result in selective exclusions implemented consistently across insurance underwriting and investment activities.

Zurich expects that ESG integration processes will, over time, lead the market to a more efficient pricing of ESG factors. This will provide the right incentives to those seeking to raise capital in the market to deal deliberately and strategically with ESG issues. While the approach is economic in nature, we do believe that ESG integration will eventually also have positive environmental and social impacts.

See the [appendix](#) for a description of the tools, policies and processes that we apply to make sure that ESG factors are indeed fully integrated in the investment process and in day-to-day investment decision-making.

## Dealing with portfolio externalities and adverse impacts

### Consideration of Sustainability Risk

Zurich has implemented a global set of policies and investment processes across its entities, which aim at ensuring a consistent approach on the integration of Environmental, Social and Governance (ESG) topics, as part of Zurich's responsible investment strategy. Through ESG integration we price and manage financially material sustainability risks and opportunities. But sustainability risks do not only influence the valuation of assets (the 'outside-in' impact). Investments may also enable economic activities that can have negative impacts on our environment and society (the 'inside-out' impact)<sup>2</sup>.

In fact, every investment, whether into a company or a project and regardless of asset class, has an impact on communities, people's lives and the environment. Companies or assets such as buildings and infrastructure are built and operated, and in the process, jobs are created or lost; products are introduced, sold and consumed, or services delivered; natural resources harvested and processed; energy produced and consumed; waste and emissions created or mitigated. Accordingly, every investment has a 'footprint', both positive and negative, that affects the real economy, our environment and our communities. Tools have become increasingly available to measure such impacts. Examples are carbon emissions, environmental pollution, or the share of 'green' and 'brown' revenues generated by companies. When measuring all positive and negative impacts of companies we are invested in, we refer to this as the investment portfolio's 'footprint'. Some impacts are closely related to a company's ethics and principles of good governance, such as respect for human rights, adherence to international treaties, regulations and norms, anti-corruption and anti-bribery matters or the way in which they deal with social and employee matters.

Many of the harmful influences companies or real assets can have on the environment, their employees or communities they operate in, may result in direct or indirect financial risks, the risk of losing the license to operate, competitive disadvantages or the loss of customer or community support. In other words, they constitute an 'ESG risk' or 'sustainability risk'.

Zurich uses various third-party data providers that understand these relations and provide information on the most material ESG risks and opportunities, as well as adverse impacts and ongoing controversies per company in the context of the sector they operate in. We have integrated ESG information, including climate data, into our systems and can have information about the environmental, social and governance performance of our portfolios at our fingertips. In addition, our in-house portfolio managers and analysts have direct access to ESG research and analysis sourced from specialized providers and are trained to assess these risks and opportunities.

Detailed information on our ESG integration approach can be found in [appendix VII](#).

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<sup>2</sup> This concept is often referred to as 'double materiality'. As highlighted by the Non-Financial Reporting Directive (2014/95/EU), a large number of ESG factors may be analyzed from two complementary perspectives: a) the impact on the development, performance or position of a company, as well as the financial value of an investment, in a broad sense (i.e., 'financial' materiality); b) the external impacts of the company's or investment's activities on ESG factors (i.e., 'environmental, social and governance' materiality). Negative external effects under the latter definition are referred to as 'Principle adverse impacts' (PAI) under the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR).

### Identification and prioritization of Principle Adverse Impact and indicators

Zurich considers the principal adverse impacts of prospective and active investments. We have a framework in place to identify and assess those impacts. Examples of principle adverse impacts that can also represent material ESG risks include, but are not limited to:

- Climate change risks (transition risks, physical risks and litigation risks).
- Activities negatively affecting biodiversity.
- Environmental and health impacts of hazardous chemicals, waste and pollution.
- Resource inefficiency.
- Deforestation, land degradation, and depletion of natural resources.
- Exposure to controversial weapons.
- Respect for human rights.
- Corruption and bribery matters.
- Inadequate governance.
- Tax evasion.
- Breaches of regulation, international norms and conventions.
- Inadequate handling of human capital or client relations.

Zurich identifies and prioritizes adverse impact indicators as part of Zurich's responsible investment and sustainability risk strategy, with the help of data and analysis provided by third party providers.

### Actions to address, avoid or reduce Principal Adverse Impact

In order to manage identified and material adverse impacts we apply a variety of tools anchored in our responsible investment approach:

- 1. Monitoring exposure:** Zurich monitors on a regular basis the overall ESG scores, controversy scores and CO2e emissions of its worldwide holdings, as well as a selection of climate-related indicators.
- 2. Restricting investments:** This covers i) avoiding the risk and adverse impacts by refraining from an investment opportunity as well as ii) excluding specifically harmful activities through Zurich's [sustainability risk positions](#).
- 3. ESG integration:** Translating a negative footprint into ESG risks, and integrating those by pricing the risk and/or underweighting the investment as per our [ESG integration approach](#).
- 4. Engagement:** Supporting shareholder proposals, voting against management or engaging in accordance with our [proxy voting policy](#) and [engagement approach](#).
- 5. Transition to a net-zero economy:** managing climate change risks by targeting a fully Paris-aligned portfolio as part of Zurich's [net-zero 2050 commitment](#).

## Engagement and Proxy Voting Guidelines

Active ownership (defined by Zurich as proxy voting and engagement) is a vital part of Zurich's role as a responsible investor. Zurich has adopted a global engagement policy where we seek to improve issuers' practices with a specific objective in mind.

This Engagement Policy describes Zurich's engagement process:

- Scope
- Objectives
- Prioritizing our engagement
- Method of engagement
- Conflicts of interest

This policy also describes Zurich's commitment to providing transparency and regular reporting on engagement activities, and how Zurich participates in collaborative engagements. More detailed information can be found in Zurich's [Proxy Voting Policy & Guidelines](#), as well as Zurich's engagement policy, which can be found in [appendix VIII](#).

## Adherence to responsible business codes

As part of our commitment to sustainability, Zurich is a signatory of the United Nations Global Compact, the UNEP FI Principles for Sustainable Insurance and the Principles for Responsible Investment (PRI).

Further details on the responsible business codes followed by Zurich, and the initiatives the company is part of, are available on [our website](#).

This approach is adapted to each asset class and is applicable to assets managed internally by Zurich, as well as own assets managed by external asset managers. Please find further information on asset manager selection and management in regard to our responsible investment policy in the [appendix](#).

## Section III:

Impact investing at Zurich: How we define and practice impact investing

Zurich has the ambition to building an impact investment portfolio that helps to avoid 5 million metric tons of CO2e emissions per year, and, separately, makes a positive contribution to the lives and livelihoods of 5 million people per year.



## Impact Investing

- Intentionality
- Measurability
- Profitability

Entrepreneurs, governments, non-governmental organizations (NGOs) and others in both public and private spheres are turning to capital markets to search for – and fund – solutions to many of the pressing social and environmental issues of our time. Impact investments address these issues through the targeted, positive impact they have on society or the environment, while offering a financial return. Whereas ESG integration is the primary tool to capture the economic value associated with ESG factors and enhance long-term, risk-adjusted returns, **impact investing is about identifying and allocating capital to investment opportunities that generate tangible positive impact for a given level of risk and return.**

As discussed earlier every investment, regardless of asset class, has an impact on communities, people’s lives and the environment. Companies or assets such as buildings and infrastructure are built and operated, and in the process, jobs are created or lost; products are introduced, sold and consumed, or services delivered; natural resources harvested and processed; energy produced and consumed; waste and emissions created or mitigated. Accordingly, every investment has a footprint, both positive and negative, that affects the real economy, our environment and our communities. There are an increasing number of tools available to measure such footprints. Examples are carbon emissions, or the share of ‘green’ and ‘brown’ revenues generated by portfolio companies. While increasing an investment’s positive footprint often leads to investment opportunities, negative footprints also need to be managed. To learn how we do this, please see the previous chapter.

In contrast, impact investing is centered on positive impacts and focused on smaller but dedicated parts of the portfolio. At Zurich, we follow the GIIN definition<sup>3</sup> of impact investing as investment opportunities that allow us to **intentionally** target a specific positive social or environmental impact and allow us to **measure** the impact achieved; these are **profitable**, meaning that they generate a market-rate financial return commensurate with their risk. Based on our experience as impact investor, we also differentiate between investments that are aligned with increasing our impact and those which serve to play a truly catalyzing role.

Footprinting	Impact investing	
	Impact	Deep Impact
<ul style="list-style-type: none"> <li>• Positive and negative impact</li> <li>• Measurability</li> <li>• Profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Positive impact</li> <li>• Intentionality</li> <li>• Measurability</li> <li>• Profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Positive impact</li> <li>• Intentionality</li> <li>• Measurability</li> <li>• Profitability</li> <li>• Additionality</li> </ul>

<sup>3</sup> Impact investments: Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

## 1. Intentionality – impact is more than just a ‘by-product’

What sets impact investments apart is that they are carried out with a specific outcome in mind. The impact is not a side effect; it becomes part of the investment objective. ‘Intentionality’ means that there is a directional link between an investment, and the intentional and measurable positive impact it creates. This intentionality most often stems from a specific project setup that by design targets a positive outcome, such as infrastructure that solely focuses on renewable energy generation, or social enterprises set up to solve a specific issue. It can also be established by directing investments as a specific pool of projects with green or social characteristics, such as is done through use-of-proceed bonds or investing with an intention of improving an asset, such as the energy efficiency or reducing greenhouse gases of a building. Zurich evaluates impact investments within the context of specific asset classes and creates dedicated strategies for impact investments within those asset classes.

## 2. Measurability – understanding what impact achieves

When impact is part of the investment objective, it should be measured just like other investment objectives, such as risk, return or investment income. Zurich acknowledges that impact is not easy to measure. Data may not be readily available, data quality may be poor, and randomized control groups may be required to establish outcomes with scientific rigor. In some cases, the cost to get proper measurement of the outcomes may be prohibitive. As a result, Zurich is taking a pragmatic approach with respect to impact measurement, assessing approaches on a case-by-case basis. However, Zurich will always require that reasonable attempts are made to measure impact quantitatively. Measurement may be limited to specific indicators that do not cover the full breadth of impact objectives; it may be supplemented by case studies; it may evolve, or it even may not be in place in the beginning if there is a solid commitment to establish it over time. However, Zurich will not regard any investment as an impact investment if no attempt is made to measure impact.

Standards around impact measurement, such as the Global Impact Investing Network’s (GIIN) Impact Reporting and Investment Standards (IRIS), or the Green Bond Principles’ (GBP) standardized impact metrics<sup>4</sup> are continuously being developed, complementing approaches established and applied by development finance institutions. Zurich encourages the use of these standards. As data quality improves over time and impact measurement gets more widely adopted, Zurich expects that capital can be allocated more efficiently to where impact is generated most effectively. Our own lessons learnt from multiple years of measuring impact in an aggregated format have led to an upgrade in our strategy that now prioritizes impact targets.

## 3. Profitability – generating impact alongside return

While impact investing is distinct from grant-making philanthropy in that capital is always expected to be paid back to the investor, there is no general rule in the market regarding the return that an impact investment must generate. The return may or may not be a market-rate return. It could be zero, or very low, but it might also be comparable to the return on a non-impact investment of similar risk.

As institutional investors with a fiduciary responsibility to optimize economic returns for shareholders and policyholders, we must be comfortable that the return of an impact investment does, in fact, adequately compensate for the underlying market risks. We acknowledge that many pressing social and environmental issues cannot be solved in purely commercial settings, and that the role of grant funding and other sources of concessionary capital is hugely important. Venture philanthropists may be willing to forgo any return, seeking only the repayment of principal. Mission-driven investors, high-net-worth individuals, foundations, or endowments may accept a below-market return. However, given the massive scale of solutions required to solve issues such as climate change, resource scarcity, global education, global health and many other challenges, Zurich feels it is equally crucial that impact investments attract institutional investors with a fiduciary responsibility to optimize economic returns – even if this requires the use of public or philanthropic capital to de-risk investments. Only institutional investors command a pool of capital large enough to tackle many of the issues at hand.

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<sup>4</sup> Find more information about [IRIS](#) (GIIN); recommendations on impact metrics are available in the Green Bond Principle’s [resource center](#)

#### 4. Aligning and catalyzing – pushing the borders for even higher impact

Zurich will target a range of impact investments: those whose ‘**impact**’ is aligned with our stated impact objectives, with a focus on actively increasing our investments in assets in which we have also otherwise invested, such as, for instance, green bonds; and, on the other hand, those investments that are more ‘**deep impact**’ in nature and, as a result, require further effort in terms of investment processes, such as private market investments in emerging and frontier economies.

While impact investing has enjoyed rising popularity in recent years, both as a term and an investment style, for many decades it has been practiced under different names. However, there is a consensus emerging around some of its key characteristics, and Zurich’s definition of impact investing is very much aligned with this consensus.<sup>5</sup> There are also the [Operating Principles for Impact Management \(impactprinciples.org\)](https://www.impactprinciples.org/), a framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle.

Zurich’s impact management approach is verified against these principles. Please find the [Disclosure Statement here](#).

#### Zurich’s impact objectives: mitigating environmental risks and increasing resilience

By pooling risks, insurance helps to protect individuals or organizations from the financial uncertainties of life and the vagaries of our world. Providing insurance protection to individuals frees them from social constraints. Without insurance, individuals remain dependent on the support of the family or community, or risk poverty and destitution. And even in cases where family or community support is available, many shocks will continue to significantly affect the welfare of the poorest. As a global insurance group, serving millions of customers in over 200 countries and territories, and with a rapidly growing footprint in many of them, our customers are directly or indirectly exposed to environmental and social challenges. Not all of these can be mitigated through insurance.



Through our impact investments we target positive outcomes in two main ways:

- Mitigating environmental risks by supporting a net-zero climate economy and encouraging environmentally-friendly technologies.
- Increasing community resilience by helping to build ‘community capital,’ and addressing the needs of populations that lack means to achieve such goals (the ‘underserved populations’ based on needs).

<sup>5</sup> See for instance the Global Impact Investing Network’s [definition](#)

At the same time, we also acknowledge that the universe of impact investment is limited, albeit growing rapidly, and institutional investor commitment is crucial for the market's further development. It is also one of our explicit objectives to support the 'mainstreaming' of impact investing through collaborative engagement and investments. To support market development and achieve scale and portfolio diversification, we may also support investments targeting impacts beyond those already mentioned.

Please read more about objective and intention in our [Disclosure Statement for the Operating Principles for Impact Management](#).

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## The five Cs

### 1 Physical capital

(infrastructure, equipment; etc.);

### 2 Financial capital

### 3 Human capital

(education, health, etc)

### 4 Social capital

(social relationships  
and networks, etc)

### 5 Natural capital

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## Mitigating environmental risks

The effects of climate change, influenced by human action, are not just limited to rising global temperatures; they will lead to a myriad of extreme weather events. The frequency and intensity of hurricanes, heatwaves, floods and droughts are increasing, causing disruptions to ecosystems, economies and communities. Zurich recognizes the risk that environmental issues such as climate change pose to its stakeholders and its business performance. Zurich's mission is to help its customers understand and protect themselves from risks, such as the risks associated with climate change. Mitigating climate change, and environmental protection more generally, is integral to sustainable value creation for both Zurich and society. (Visit our [webpage](#) to learn more about what we are doing to protect the environment, and read Zurich's position statement on climate change [here](#).)

As a founding member of the UN-convened Net-Zero Asset Owner Alliance (NZAOA), Zurich is committed to promoting and financing the transition to a net-zero economy that will require funding for the development of new and replacement of existing technology. The scale of the changes required will vary from industry to industry, with some sectors requiring more investment than others. This includes achieving universal access to clean energy services, improving energy efficiency, and increasing the share of energy generated from renewable resources.

Zurich will consider impact investments that help increase energy efficiency, generate renewable energy or mitigate climate change, promote adaptation and/or protect the environment in other ways.



### Impact ambition:

Avoid the emission of five million metric tons of CO<sub>2</sub>e per year.

## Increasing community resilience

In addition to the pooling of risk, insurance can also help make communities and society more resilient to unforeseen shocks and build climate change adaptation measures, for instance, by sharing expertise on how to mitigate risks. Zurich's efforts to help communities reduce the impact of floods as part our [climate resilience program](#) are an example of how we use our expertise to increase the resiliency of our communities.

However, resilience should not be viewed too narrowly. An effective way to supplement measures of resilience is to look at community capital, or 'the five Cs': physical capital (infrastructure, equipment, etc.); financial capital; human capital (education, health, etc.); social capital (social relationships and networks, etc.); and natural capital. Sustainable economic growth and wellbeing go hand-in-hand with risk preparedness.

Zurich will consider impact investments that help to build community capital and make goods and services more accessible to populations that are not adequately served by investment means.



### Impact ambition:

Make a positive contribution to the lives of five million people in need.

## Investment approach

Zurich believes that impact investment opportunities exist across various asset classes and across a spectrum of investments with more or less catalytic effects. We are dedicated to evaluating impact investment opportunities across the spectrum and, over time, build a portfolio of impact investments that helps to avoid 5 million tons of CO2e emissions per year, and, separately, makes a positive contribution to the lives and livelihoods of 5 million people.

In identifying potential impact investments, we will assess whether the investment meets our definition of impact investing (intentionality – measurability – profitability), supports our impact objectives (mitigating environmental risks and increasing community resilience), contributes to our impact ambition and/or, contributes to development of the impact investing market.

However, we also believe that impact investing will only be sustainable as an investment approach if it can be integrated into our overall investment management process. Opportunistic investments can supplement the portfolio occasionally.

But in general, we want impact investments to be an integral part of the portfolio, not just one-offs. Consequently, in addition to the criteria already described here, we will also assess impact investment opportunities along the following lines:

- **Risk and return profile:** Is the risk/return profile in line with Zurich's risk factor-based approach to ALM and strategic asset allocation? (See [section I](#) or [Investment Management: a creator of value in an insurance company](#) for more details on insurance investment management.)
- **Scale:** Is the universe of assets for a given type of impact investment large enough to define a meaningful allocation, build a diversified portfolio, and re-invest capital over time?
- **Structure:** Does Zurich, or an institutional-quality external asset manager, have the capability and expertise to manage the asset?
- **ESG risks:** As with any other investment, we will assess ESG risks associated with the underlying asset as part of a holistic asset selection process. Note that we do not equate ESG performance with impact (see also [section II](#)).

As a final point, regulation and other constraints that are relevant to an insurance company also need to be weighed.

Footprinting	Impact investing	
	Impact	Deep Impact
<ul style="list-style-type: none"> <li>Ex-post: measurement</li> </ul>	<ul style="list-style-type: none"> <li>Ex-ante: dedicated allocation or systematic tilt in portfolio</li> <li>Limited complexity</li> <li>Ex-post: measurement</li> <li>Examples: green and social bonds; overweight in renewable energy assets; healthcare private equity fund</li> </ul>	<ul style="list-style-type: none"> <li>Ex-ante: dedicated allocation or systematic tilt in portfolio</li> <li>More complexity: new and less familiar risks; non-traditional structures; smaller transaction size; increased due diligence effort</li> <li>Ex-post: measurement</li> <li>Examples: backing first-time environmental technologies fund; emerging and frontier market private equity or debt; pay-for-performance structures</li> </ul>

### Investing in green, social and sustainability bonds

The unique characteristic of green, social and sustainability bonds (also referred to as use-of-proceeds bonds or ‘GSS’ bonds) is the pre-defined use of proceeds according to criteria to which issuers commit, clearly linking the investment to specific projects that allow the bond issuer to report a result or impact. The market for green bonds has been developing rapidly since broadening from the traditional issuer base of supranational institutions in 2014. Use-of-proceed bonds can take many forms: standard recourse-to-the-issuer debt obligations, revenue bonds, asset-backed securities, project bonds, etc., and are issued by supranational institutions, state agencies, corporates, and municipalities. Through its commitment to this market, Zurich is seeking to capture opportunities across the universe of green, social and sustainability bonds.

#### Impact objectives

- Helping communities to protect the environment and mitigate or adapt to climate change.
- Supporting the development and spread of environmentally-friendly technologies.
- Helping communities to become more resilient in the face of environmental and social challenges.

While many green bonds are focused on issues around climate change, Zurich also invests in green bonds that provide financing to other projects that offer benefits to the environment, such as sustainable water use, waste management, biodiversity, etc. Zurich also systematically invests in social and sustainability bonds.

#### Structure

To capture the breadth of credit instruments and issuers represented in the green, social and sustainability bond market, Zurich has defined two separate but complementary approaches for investing in them.

##### 1. Dedicated green bond mandate for supranational green bonds issued in U.S. dollars:

Assets with minimum credit risk, such as those issued (or explicitly guaranteed) by national governments or supranational institutions, form a very significant part of Zurich’s asset allocation. In line with our established approach to define portfolios along credit sector- and currency lines, Zurich has carved out a dedicated green bond mandate to invest in U.S. dollar-denominated green bonds by these issuers on its North-American balance sheet. This mandate is managed by an external asset manager, BlackRock, and is funded with up to USD 1 billion.

## 2. Integrating green, social and sustainability bonds in existing fixed-income portfolios:

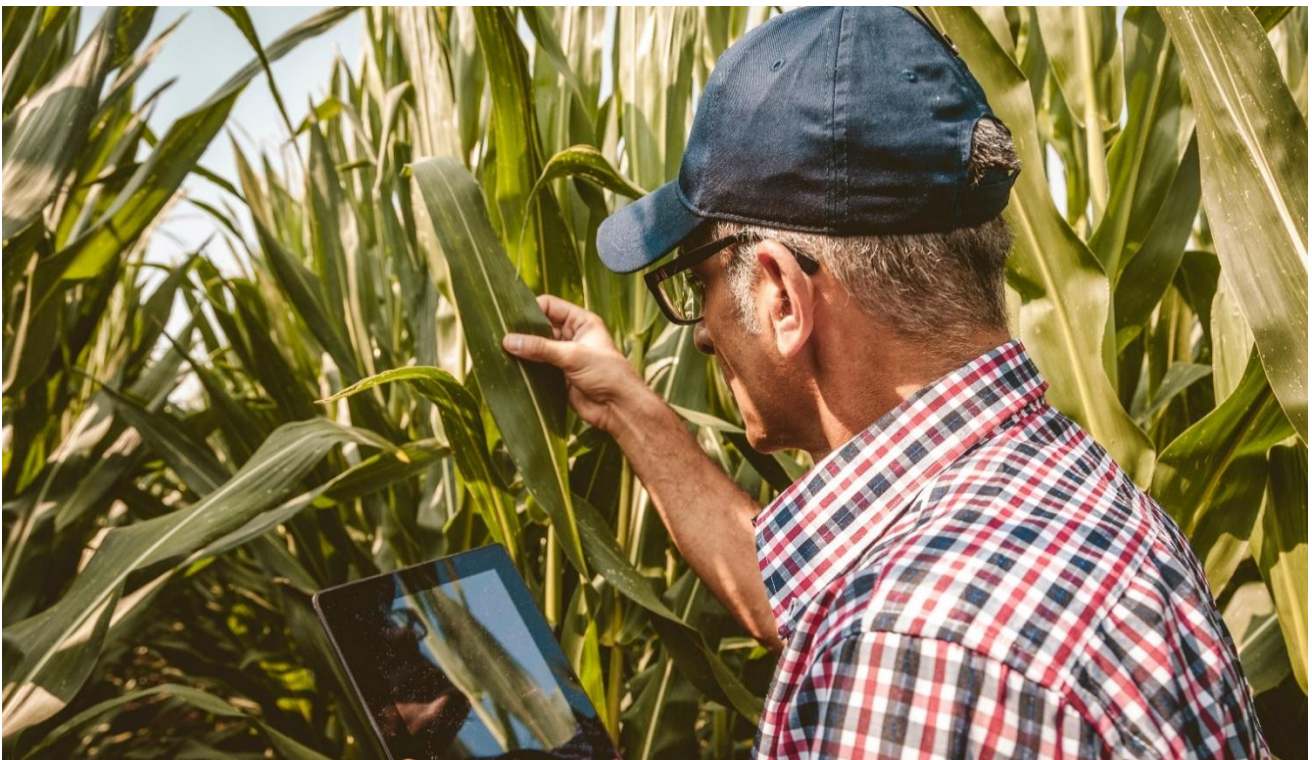
Beyond the dedicated mandate just described, Zurich has chosen to capture other credit sectors, issuers and currencies through a complementary approach. Rather than creating multiple green bond portfolios reflecting different credit sectors and currencies, or cross-currency, cross-credit-sector portfolios that would not fit Zurich's established approach to credit investing, an internal green bond expert was appointed to coordinate and facilitate use-of-proceed bond investments across Zurich's many existing balance sheets, portfolios and asset managers. Zurich is expecting to maintain and further grow this approach.

### Principles

Zurich supports the International Capital Market Association's (ICMA) [Green Bond Principles, Social Bond Principles and Guidelines for Sustainability Bonds](#). To evaluate green, social or sustainability bond investments, supplementing the ICMA's principles and in addition to economic considerations, Zurich applies the following criteria:

#### The quality of impact and direction of travel

- When analyzing use-of-proceeds bonds and deciding whether they should be classified as impact instruments, Zurich focuses primarily on the projects to be financed, and their ex-ante potential for positive impact.
- If the ex-ante potential of the projects to contribute to environmental or social improvements is promising, the proposed projects or selection framework will be evaluated in the context of the issuing entity. Zurich gauges the issuer's sincerity of intent and analyzes to which degree the projects are anchored in the issuer's overall environmental, social or sustainability strategy. Even initial steps, if rooted in a sound strategy and critical to progress, will be preferred over opportunistic approaches that are divorced from the issuing entity's business model or sustainability strategy.
- Zurich will also analyze potential ESG risks that might be associated with green or social projects, as well as the issuer's track record in implementing projects that do pose such ESG risks.



## **Incremental benefits are better than no progress at all**

- Zurich acknowledges that not all activities with environmental benefits are considered equally 'green' by various stakeholders, and that full agreement on the net environmental benefits is not always possible, particularly if taking a full life-cycle view. In general, Zurich believes that incremental environmental benefits are better than the absence of progress and sees green bonds as a good instrument to engage issuers with less-than-perfect environmental credentials, as long as the trajectory of their actions is promising.
- However, Zurich acknowledges that there are sectors which, by definition, have a challenging role when it comes to addressing the three key areas of environmental concern as spelled out in the Green Bond Principles – pollution prevention and control, biodiversity conservation, and climate change adaptation. When incremental green benefits are targeted within an inherently 'brown' activity, Zurich will pay specific attention to the level of ambition displayed in the proposed improvements in order to classify such a bond 'green' rather than just 'conventional'.
- Zurich believes that, over time, impact reporting is the right instrument to assess the relative environmental as well as social benefits of underlying activities.
- As the GSS bond market grows and develops, investors – including Zurich – will learn more about the environmental and social benefits of different activities. Zurich will evaluate the intended use of proceeds of each GSS bond and, on a case-by-case basis, assess their quality as an impact instrument.

## **A transparent process is needed to administer proceeds and ring-fence funds**

- The issuer must have a clear and transparent framework to allocate funds from a use-of-proceeds bond to underlying eligible projects. Categories of eligible projects must be clearly defined.
- The proceeds from use-of-proceeds bonds should be held in a separate account or be otherwise tracked.
- So-called 'second opinions' on these processes provided by third parties are welcome and encouraged, but are not an absolute requirement if the issuer publicly provides complete and transparent information.
- While Zurich may invest in bonds issued by companies whose whole portfolio of activities could be considered green or social (often referred to as pure plays) in the absence of a clear use-of-proceeds provision and impact reporting, we will not deem such bonds 'green bonds', 'social bonds' or 'sustainability bonds.'

## **The issuer must be committed to impact reporting**

- A complete list of projects receiving funding from use-of-proceeds bonds must be made available to investors once proceeds are disbursed. Where confidentiality requirements limit the amount of details that can be made public, generic descriptions are acceptable.
- Issuers must be committed to make good-faith efforts over time to report on the positive environmental and social impact of the projects. Zurich is fully aware of the challenges and limitations of impact reporting and it is understood that quantitative performance measures may not always be readily available. Zurich expects issuers to report at least one relevant metric per category of projects funded, even if the metric cannot be established for the complete portfolio of projects.
- Zurich welcomes independent third-party verification of impact metrics but does not require it.

## Assessing ESG factors at the issuer level – a separate process

Zurich believes that the defining characteristics of use-of-proceeds bonds include the fact that their proceeds are used in a predetermined way, are clearly linked to specific projects, and that their impact can be measured. The impact potential of a use-of-proceeds bond is primarily determined through the process described above. The issuer's ESG rating is neither a necessary nor sufficient condition to define a green, social, or sustainable bond. However, ESG factors do provide valuable insights into the potential risks and expected returns across asset classes. Accordingly, Zurich uses the issuer's ESG rating in a second step after a use-of-proceeds bond has been identified as an impact instrument in order to evaluate risks and opportunities associated with specific ESG factors, using those to determine a bond's fair value. ESG factors may very well affect the cost of capital and issuing a green bond may signal lower risks to investors with regards to its overall ESG profile. Zurich would expect these characteristics to reduce cost of capital for all securities of the same issuer, not just that issuer's green, social or sustainability bonds (see also [section II](#)).

## Transparency in environmental finance is a prerequisite

Large investments are needed to counter the threat of catastrophic global warming and tackle other environmental issues.

- Zurich believes that transparency is necessary to make progress and encourage impact investments. Green bonds are an excellent tool to make finance flows into environmentally beneficial projects visible. Zurich encourages market participants to highlight environmental projects through the use of green bonds and is convinced that a transparent market will make it easier to encourage additional projects and investments. To understand what progress is being made toward closing the climate finance gap, we first need to make the flows visible.
- Refinancing is a crucial activity and the concept of a green bond can be applied to both original funding and refinancing activities. Besides providing a clearer picture of investment volumes, the green bond framework sheds light on the impact achieved. Zurich hopes that, over time, capital can be allocated more efficiently to where the most effective impact is generated.
- A large and liquid green bond market provides a good entry point for mainstream investors, financial intermediaries and issuers, allowing them to take up issues related to environmental sustainability and climate change. We believe that an improved 'environmental literacy' in the financial sector through low-risk instruments such as green general-obligation bonds is a pre-requisite for increasing risk-transfer elements, paving the way for green revenue or project bonds, or other, more risky investments.

## Engagement

Zurich is a member of the executive committee that governs the Green Bond Principles. It is also a member of formal and informal working groups that play an active role in helping to develop the green bond market. Its activities reflect Zurich's particular interest in engaging other market participants in active dialogue on topics related to impact reporting.

## Impact investing in private equity

Impact investing has its roots in providing private – often venture – capital to social enterprises. Over the years the concept spread to other parts of the private equity universe. In many ways, private equity as an asset class is particularly suited to impact investing: The companies receiving capital from private equity investors usually tend to be small and agile, and engage in a more limited number of activities that can be more easily evaluated against impact objectives; a closer relationship between investor and investee also makes it easier to use innovative approaches, such as impact reporting; and, particularly in emerging and high-growth economies, private equity is often the only capital available to fund growth.

### Impact objectives

- Making goods and services more accessible to underserved populations.
- Supporting efforts to build community capital.
- Supporting development and diffusion of technology that is environmentally-friendly.
- Helping communities to protect the environment and mitigate climate change.

The following table illustrates some typical activities targeted by impact investing:

	Increasing community resilience		Mitigating climate risk	
	Building community capital	Empowering underserved populations	Fighting climate change	Clean technologies
Education	•			
Healthcare	•			
Housing	•			•
Financial services	•			
Agriculture	•			•
Energy	•			•
Transport	•			•
Green technology	•			•
Other	To be assessed on a case-by-case basis			

This table is an illustrative example only and is not an exhaustive list.

## **What constitutes an impact investment may be determined by the context.**

A private hospital provider in Western Europe may not be considered an impact investment. But a private healthcare services provider in an emerging or frontier economy, serving parts of the population trying to escape poverty, may contribute significantly to community resilience. Similarly, care for the elderly people in low-income communities in the U.S. may form part of an impact investing strategy. An investment in an industrial company in North America may not be considered an impact investment, but a similar investment in a frontier or emerging economy may create the only available high-quality employment in a specific location. When being considered for impact investment, fund managers' investment strategies will be evaluated with regard to impact objectives on a case-by-case basis.

## **Structure**

Zurich typically invests in private equity through fund investments and, in certain specific cases, through co-investments. An in-house specialist team is responsible for selecting private equity fund managers and assessing co-investment opportunities. Investments must be approved by an investment committee overseeing alternative investments. Zurich follows the same process for impact investments, with investments being held as part of existing private equity investment portfolios. Zurich will generally not consider investing with fund managers targeting below-market financial returns, or first-time fund managers with no proven track record of value creation.

## **Principles**

**Managers need not identify their offerings as impact investment funds, but their investment strategies must be in line with Zurich's impact objectives**

Zurich will evaluate fund managers' strategies in light of investment theme (e.g., 'environmental technologies' or 'access to finance'), targeted customer segment (e.g., 'emerging consumer' or 'low-income communities'), sector focus (e.g., healthcare or education) and geographic focus (e.g., frontier and emerging markets). Zurich does not expect fund managers to brand and position their fund as an impact investment fund, but the manager must be committed to impact reporting.

**The fund manager needs to show a commitment to impact reporting**

Fund managers must be committed to report on relevant non-financial metrics in line with the manager's investment strategy. Zurich acknowledges the challenges and limitations of impact reporting and it is understood that quantitative performance measures may not always be readily available. But Zurich expects good-faith efforts made over time to report on the positive impact achieved. Zurich welcomes independent third-party verification of impact metrics but does not require it.

**A solid process to assess ESG factors does not make an impact investment**

ESG factors provide valuable insight into the assessment of risk and expected return of every private equity investment (see also [section II](#)). However, the process to evaluate risks and opportunities associated with specific ESG factors is separate from generating impact. It is neither a necessary nor sufficient condition to define something as an impact investment. Zurich does, however, consider targeted improvements in ESG practices at the level of investee company operations as impact investing if they form a systematic part of the company's strategy, and attempts are made to measure and quantify improvements.

## Engagement

### Impact in Infrastructure private debt projects

The long-term nature of private debt investments suits impact investment goals well providing a unique opportunity to access assets which have a positive social or environmental impact, such as sustainable infrastructure.

### Impact objective

- Supporting the development and spread of environmentally-friendly technologies.
- Aiming to address or mitigate a specific social, socio-economic and/or wellbeing issue and/or seek to achieve positive measurable social, socio-economic and/or wellbeing outcomes benefiting underserved populations.

## Structure

Zurich invests in infrastructure through direct private debt. Zurich considers all of the main infrastructure sectors including transportation, social, energy and power and we invest in both brownfield and greenfield deals although with restrictions around the latter.

## Principles

Zurich's definition of 'impact infrastructure' is based on the [Green and Social Bond Principles](#) categorization. In order to facilitate the categorization Zurich differentiates between financing environmental and social impact infrastructure. Project developers must be committed to report on relevant non-financial metrics in line with the manager's investment strategy.

## Impact measurement

Zurich developed an [impact measurement framework](#) to measure the impact across its impact portfolio in terms of two defined impact metrics: 'CO2 equivalent emissions avoided' and 'the number of people benefited.'

## Why we measure

On top of tracking the exposure and targeted returns, Zurich wants to know what each of the investments achieve in terms of impact, and to measure its contribution toward its impact investment objectives: mitigating environmental risks and increasing resilience. Measurement helps to make better investments decisions and allows communication of Zurich's value to its shareholders. It also demonstrates that financial returns can be balanced with environmental and social returns.

## How we measure: a two-step approach

The first step is gathering reported impact numbers. Zurich's impact measurement methodology is based on impact numbers reported by the issuers of impact investing instruments. Zurich aims to collect only the impact an impact investor is financing; impact investors are encouraged to report pro-rata shares. As Zurich wants to match the impact to its portfolio's invested dollars for respective years, annualized impact numbers are collected.

The second step requires the aggregation on portfolio level, across the different asset classes. Zurich's impact framework methodology looks only at the impact created by Zurich's share of investments.

For more information, please see our [impact measurement framework](#).



## Section IV:

Advancing together: responsible investment  
can make a difference only if it becomes  
truly 'mainstream'

Responsible investment is a holistic concept. The ultimate objective of responsible investment – to create social and environmental value alongside financial returns – can only be achieved if the various responsible investment practices become truly embedded in mainstream investment management.



## Advancing together

- Innovation
- Collaboration
- Public advocacy

This will require:

- High-quality disclosure of ESG data, supported by adequate regulation and policy.
- Effective mechanisms to create cost transparency by internalizing environmental and social externalities (e.g., polluter pays principles; carbon price), supported by sensible and stable regulation and coherent sustainability policy.
- Increased focus on impact metrics that allow policymakers, businesses and investors to align contributions to objectives (e.g., UN Sustainable Development Goals).
- Ongoing investment, both public and private, in education, training, research and tools.

ESG factors can be efficiently priced with a shared understanding of how ESG factors affect risk, opportunity and economic outcomes both in businesses and society. That pricing signal is an incentive capable of ensuring that those seeking to raise capital in the market take an effective and strategic approach to ESG issues.

All stakeholders within the entire investment ecosystem have an interest in and can play a role in mainstreaming impact investing across markets and asset classes with the aim to mobilize capital at a much larger scale than today to better address the increasing social and environmental issues we face. Close collaboration is needed to bring investors, businesses, public actors, and NGOs together to design the instruments capable of delivering the full, desired impact.

Mindful of the need for transparency, Zurich encourages the industry to align on standardization and principles.

Zurich backs industry initiatives and engages with stakeholders and policymakers to promote responsible investment practices and contribute to the creation of a genuinely sustainable financial market system. Besides being a signatory of the Principles of Responsible Investment (PRI), Zurich supports various initiatives and works closely with numerous others in the field to help advance responsible investment practices and discover new solutions.

Visit our [webpage](#) to learn more about our advancing together approach.

# Section V:

## Climate Action

## How we deal with climate change

Every business and asset will be affected by climate change and collective action is needed to mitigate or adapt to it. This will be the case even if society successfully transitions toward a low-carbon economy, and reaches the 1.5°C target in line with the Paris Agreement. However, our analysis suggests that these targets are likely to be missed and that more action is necessary. As an insurance provider, we are already witnessing challenges associated with climate change affecting our customers across the globe. As an insurer and investor, we have a direct interest in sustainable global economic growth and in supporting communities to become more resilient to environmental and social challenges. Therefore, we are committed to transitioning our own investment portfolios to net-zero greenhouse gas emissions by 2050.

**The impacts of climate change run through all the elements of our responsible investment strategy.** How can we make sure that a proper assessment of risks and opportunities is reflected in investment decisions? How can we help finance measures to mitigate and adapt to climate change? How can we deal with the fact that many consequences of climate change will only materialize over a medium- to long-term time horizon? And how can we help to encourage changes that better enable financial markets to effectively deal with climate change, and approach it as both a risk and an opportunity?

## How do we think about climate risk

A journey towards net-zero emissions by 2050 requires us to consider climate-related risks and impacts to our portfolio. For this purpose, we conduct scenario-based climate risk analysis using an integrated modelling approach for our portfolio to ensure that climate-related risks and impacts are monitored and that adequate responsive measures are taken. In the section below, we explain what type of climate risks we consider, how they can potentially impact the economy and our portfolio, as well as what actions we take to mitigate the identified risks.

### What is climate risk and what types of climate risks exist?

Climate risk refers to the possible adverse impacts of climate change on the environment, businesses and society. As a global insurer and investment manager, climate risk is important to identify, assess and manage given the potential large impacts and consequences on portfolios and on the economy.

Climate risks can broadly be categorized into two types: physical risks and transition risks.

**Physical risks** arise from events influenced by a changing climate such as wildfires, storms and floods and refer to the costs and hazards resulting from the tangible impacts on business operations, workforce, markets, infrastructure, raw materials and assets. Physical risks can be further divided into either acute or chronic risks.

Acute physical risks are event-driven risks and encompass the heightened intensity of extreme weather events, such as cyclones, droughts, wildfires, heavy rainfall, floods, etc. Chronic physical risks pertain to long-term changes in climate patterns, such as rising temperatures, which can result in issues like sea level rise, prolonged heatwaves, and permanently altered precipitation patterns. These changes can, over time, significantly impact crop yields, reduce labor productivity, and disrupt ecosystems, among many other consequences.

Financial impacts from physical risks can stem from direct effects, such as higher capital costs due to damages to buildings, means and equipment, as well as indirect effects, such as reduced revenue resulting from decreased production capacity due to disruptions in the supply chain. Comprehending an asset's exposure to certain hazards can thus enable a proper risk profile of the physical infrastructure and operations.

**Transition risks** include the risks linked to the shift towards a low-carbon economy. They can involve policy changes such as carbon taxes or cap-and-trade systems, new regulations on goods and services, reputational impacts, and changes in market preferences, norms and technologies.

In responding to transition risks, economic actors - including businesses, individuals and governments at all levels – are increasingly altering their current procedures. For instance, businesses might be required to transform their production processes from carbon-intensive to low-carbon methods. This transformation can result in business disruptions and higher production or service costs.

Financial institutions with exposure to companies that may be lagging in transitioning to a low-carbon economy can thus benefit from identifying and assessing climate-related risks throughout the investment processes, as a too slow transition to a low-carbon state can potentially impact the value of investments which can eventually become stranded.

Simultaneously, the transition to a low-carbon economy can also encompass new opportunities. If leveraged effectively, these opportunities can drive industrial transformation through innovation, enhance economic competitiveness, and create new business value.

### **Macro-financial impacts of climate risks**

It is becoming increasingly clear that climate change will have significant macroeconomic effects, with important spillovers for financial markets. We believe it is important to incorporate the understanding of these effects into our investment decisions to build truly resilient global portfolios, both by limiting the financial exposure to climate risks but also to be well positioned to benefit from the emerging opportunities that the transition towards a greener economy is bound to deliver.

Climate change is likely to have important economic implications. The green transition requires a complete overhaul of our energy, industrial, and transport systems. This will mean a material reallocation of resources away from carbon-intensive sectors towards greener ones, both in terms of capital and labor. Given the urgency of tackling climate change, this structural reallocation needs to happen at an unprecedented speed. This process is likely to be disruptive, with potentially first-order implications for macroeconomic variables such as GDP and inflation.



In the short run, the green transition could lead to inflationary pressures resulting from a rise in energy prices induced by climate policies, while the impact on output could be negative due to the required reallocation of resources. The gradual warming of the planet and the likely intensification of extreme weather events can lead to increased macroeconomic volatility and negative productivity spillovers with long-term implications for growth, particularly in countries with more limited adaptation capabilities. Inflation, and in particular commodity prices, could also turn out to be more volatile because of a changing climate.

In turn, the response of central banks to climate-induced growth and inflation dynamics through their monetary policy decisions will affect the financing rate of the economy, with implications for virtually all asset classes.

Achieving ambitious climate objectives and limiting global warming to a reasonable level requires a substantial scaling up of green investments and expansionary fiscal policies. Given the current limited fiscal space around the world, this may prompt questions around the fiscal sustainability of the green transition, with potential implications for inflation. Higher investment needs may also push up real yields.

Finally, climate change can also affect risk premia and thus the price of financial assets. For instance, the potential increased frequency of climate-induced negative supply shocks coupled with the large green fiscal spending needs could justify a higher inflation risk premia and steeper yield curves. The prospect of a tightening of climate policies can increase the risk of stranded assets in certain fossil fuel dependent industries and generate a so-called carbon risk premium. Conversely, uncertainty around the path of climate policies can make green investments riskier and lead creditors to require a higher compensation for financing such projects.

### **Assessing portfolio climate risks**

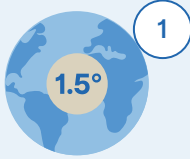
We treat climate change as an economic phenomenon and adopt a top-down approach, drawing financial implications from expected changes in macroeconomic conditions across various climate scenarios. To do this, we rely on an internal quantitative model that links financial returns with economic conditions through macro-financial asset pricing equations. Climate change and the transition towards a greener economy have the potential to fundamentally alter the structure of the economy, but is characterized by a high degree of uncertainty. At Zurich, we adopt scenario-based climate risk assessments to account for this uncertainty.

Climate change is also characterized by a high degree of heterogeneity, across countries, industries, and the companies within them. In a world where ambitious climate policies are introduced, certain industries and companies stand to benefit from the emerging opportunities, while some others are likely to face important disruptions. Similarly, certain countries may be particularly negatively exposed to the physical risks resulting from climate change. The climate scenarios from the Network for Greening the Financial System (NGFS) that we consider cover a broad range of potential outcomes and are expected to lead to meaningful differences in terms of economic dynamics, with asymmetric financial effects across countries, industries, and companies. We believe it is thus essential to have transparent tools that can meaningfully characterize the heterogeneity and uncertainty surrounding climate change and derive the respective investment implications.

To this aim, we have developed a data-driven risk scoring approach that aims to capture both physical and transition climate exposure across countries, industries, and companies. We put a special emphasis on the transparency of the approach to achieve a clear understanding of the drivers behind the climate risk assessment. Together with our quantitative macro-financial model, this helps us to identify key sources of financial risks and opportunities in our portfolios across the various climate scenarios and asset classes.

In an evolving field such as climate risk modelling, we also believe it is critical to adopt a flexible approach that incorporates the latest climate research insights, technological developments, as well as changes in the regulatory environment.

## Zurich has defined a holistic strategy to reflect climate change in its investment approach and we are committed to action in eight areas



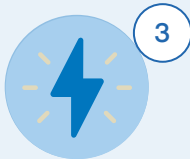
### Net-zero portfolios by 2050

We have pledged to transition our investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures taking into account the best available scientific knowledge. In line with Paris Agreement article 4.9, we are setting intermediate five-year targets for the asset classes where there is a methodology available.



### Scenarios

It is hard to take action without context. Scenario-based climate risk analysis is conducted using an integrated modeling approach for our portfolio to ensure that climate-related risks and impacts are monitored and that adequate responsive measures are taken. Zurich has developed and is regularly updating a climate scorecard to enable monitoring of global climate-related developments.



### Strengthen ESG integration

Given its complexity and long-term nature, climate change represents a particular challenge for ESG integration. Additional data and tools are required to raise awareness among investment professionals and to support integration in investment strategies.



### Benchmarks

ESG integration practices might fail to effectively capture all climate change-related risks and opportunities. We are testing the use of special benchmarks that incorporate a climate risk assessment and will evaluate the application of such benchmarks for new and existing portfolios on a case-by-case basis.



5

### Finance the transition to a low-carbon economy

As part of our ongoing commitment to impact investing and our target to help avoid the emission of 5 million metric tons of CO<sub>2</sub>e per year, we will evaluate green investments across different asset classes on an ongoing basis. See [section III](#) for more details.



6

### Drive change through advocacy

Public and private sectors need to take decisive action. Zurich has defined clear positions on topics such as transparent risk disclosure, carbon pricing, etc. See [section IV](#) for more details.



7

### Engagement

As part of engaging with the companies in which we invest, climate change is being reflected on the agenda and considered in voting practices. See [appendix](#) for more details.



8

### Selective exclusions

Recognizing the particularly harmful impact of fossil fuels on climate, Zurich has developed a Group approach on selectively excluding companies related to the mining of or electricity generation from thermal coal, oil sands and oil shale from its underwriting and investing activities, where permissible by law or regulation. Furthermore, Zurich does not believe that further exploration and development of new fossil fuel projects, beyond those already operating or with approved licenses already in place, is required for the transition. Hence, Zurich has implemented positions for its investment and underwriting portfolios to restrict support of new fossil fuel developments. More information on our positions can be found on our website under [sustainability risk](#).

## Journey towards net-zero 2050



Zurich has committed to transitioning its investment portfolios to net-zero greenhouse gas emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures taking into account the best available scientific knowledge including the findings of the International Panel of Climate Change ([IPCC](#)), and regularly reporting on progress, including establishing intermediate targets every five years in line with the Paris Agreement Article 4.9.

This commitment is made with the anticipation that governments will fulfill their pledges to meet the goals of the Paris Agreement. However, additional efforts are still required from national governments to bridge the significant ambition gap. This includes establishing and strengthening nationally determined contributions (NDCs) and country-specific pathways that align with the 1.5°C target. For the long-term prosperity of our global economy and society, the initiatives of businesses and financial institutions that have committed to 1.5°C-aligned net-zero goals must be supported and complemented by government and regulatory actions.

### Financing the transition

Transition finance is a key activity for investors to support the global aim of a low-carbon economy. Financial institutions recognize that the transition to net-zero will involve more than simply investments in “green” assets and businesses such as renewable energy and electric vehicles. Transition finance has a pivotal role in achieving global net-zero goals as one of the key aims is to finance a fundamental change of the operations and production of heavy emitting companies, which requires large amounts of capital. To reach net-zero across the whole economy, it is therefore crucial that financial market participants acknowledge that transition finance is a key mean and that low-carbon technologies investments and transition finance go hand-in-hand, and that staying invested in some more heavy emitting companies is not contradictory to a portfolio net-zero commitment.

In addition to providing the necessary capital, financial market participants should, via their transition finance activities, incentivize and support investee companies to make the required transition to a low-carbon economy, which includes but is not limited to switching to low-carbon fuels and energy sources, improving energy efficiency, improve waste management processes, introduce alternative raw materials and processing machinery and procedures, etc. Estimates suggest that [a total of USD 150 trillion is needed to achieve the 1.5°C target by the year 2050](#), which is on average more than USD five trillion on an annual basis.

Zurich recognizes that financing the transition is highly needed for the decarbonization of our societies and believes that we can best fulfill our commitment by driving change in three key areas (engagement, climate solutions investments and portfolio emission reductions) that align with our strengths as an asset owner and can contribute to broader decarbonization efforts in the global economy.

## An investors' approach to net-zero

Climate change represents a major source of systemic risk in the financial system and to investors. Investors endeavoring to manage those risks and have a positive impact on their portfolio companies – whose activities are directly contributing to the economy and therefore having an effect on global emissions ('real economy-emissions') – can make use of different means to influence their investee companies. Two of the most influential levers include:

- **Active ownership (including proxy voting and company engagements)** which lays the foundation for companies to embrace more climate-friendly practices, by declaring interest in and urging companies to meaningfully decrease their emissions and;
- **Providing enabling capital (climate solutions investments):** climate solutions offer essential technologies and systems that enable companies to transition effectively, aligning with decarbonization objectives by providing practical methods to reduce emissions.

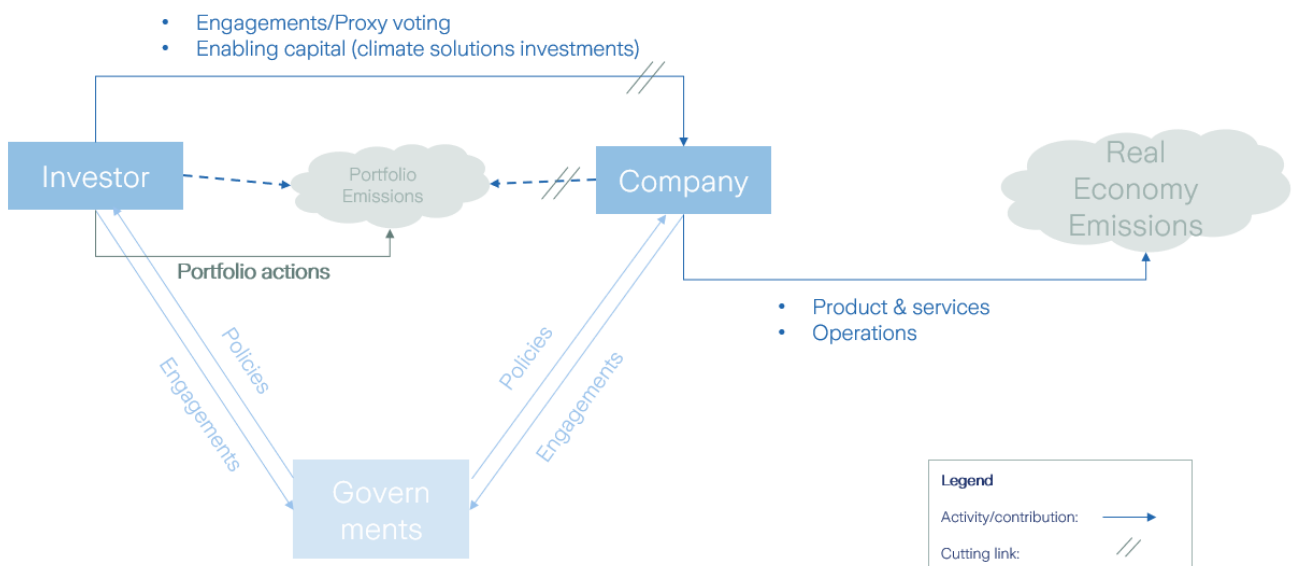
If an investee company successfully takes action by leveraging from these climate solution technologies and systems, the company should eventually be able to reduce its emissions via the streams of 'products and services' and 'operations' (without outsourcing emissions to its value chain) and will have, all else equal, an effect on global emission levels. This will also (indirectly) have a de facto effect on investors' financed emissions accounting, illustrated below.

However, if an investor simply divests from a company due to high contribution on its financed emissions (e.g., a cement company), the investor will cut the link and the means to influence a company will consequently disappear, and thus also the opportunity to have an influence on decreasing global greenhouse gas emissions.

When defining a net-zero strategy, an investor's overarching ambition is to support a reduction in the real-economy emissions globally. However, the only lever investors have control over, is their own portfolio actions, and therefore targets might only be set at portfolio level. This includes its financed emissions, but also the means by which an investor can influence its investee companies. An investor can directly influence its financed emissions through portfolio actions such as reallocations, changes in its portfolio composition, as they actively divest from high-emitting positions and re-invest capital in lower-emitting companies.

Reducing its financed emissions will also have other positive side effects, including being less exposed to emissions which are prone to transition-related climate risks, such as carbon pricing.

Policy engagement is a critical channel through which investors can shape action by policymakers. Active investor engagement is crucial in order to develop public policy frameworks needed to support investors and companies to act on climate change and transition to net-zero.



A 30-year journey must start with first steps. Accordingly, we have set interim targets for engagement, climate solutions investments and portfolio emission reduction in a variety of asset classes, which will be broadened as suitable methodologies become available, following the guidance of the [UN-convened Net Zero Asset Owner Alliance](#).

## Engagement

Zurich strongly believes that simply divesting from companies with carbon-intense footprints is less effective to reduce real-world emissions, than engaging with them to drive the shift to sustainable practices. Many of these companies have the knowledge and engineering capabilities required to make a green transition and harnessing this can benefit sustainability goals. We see engaging with our portfolio companies and asset managers on climate change as good business practice. We think that companies committed to creating longterm stakeholder value and aligning this ambition with forward looking strategic planning, are better positioned to deliver stable and resilient business performance. This is especially important for systemic risks such as climate change, which we view as a financial risk to our portfolios. In addition to company engagements, we leverage additional engagement forms such as asset manager and policy engagement, to achieve more systemic change and influence real-economy emissions.

While company engagement is under our direct influence one of the most important and impactful engagement opportunities we as have as an asset owner is engaging our asset manager to support greater climate action and 1.5°C alignment. This is true for asset managers investing on our behalf in both public and private markets.

Furthermore, asset owners have always been clear that to achieve these commitments, they depend on policy and the real economy to keep pace with scientific pathways that limit peak warming to 1.5°C. One of the most straightforward policy engagement opportunities for investors is calling for regulation that requires company disclosure of material climate information.<sup>6</sup>

- **Mechanism:** By actively engaging with the companies in which we invest, we try to influence corporate strategies and operations to align with climate goals. But we also aim to drive broader systemic change by engaging with asset managers and through policy engagement.
- **Impact:** Successful engagement leads to more companies committing to net-zero targets, reducing their emissions, and adopting sustainable practices.
- **Actions:** Zurich engages on systemic change through supporting policy advocating papers, working with asset managers, and focuses on supporting emission-heavy companies to progress.

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<sup>6</sup> UN-convened Net-Zero Asset Owner (2022): The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk [UN-convened Net-Zero Asset Owner Alliance – United Nations Environment – Finance Initiative](#)

**Four** key engagement strategies: while bilateral engagement is under Zurich’s direct control, the other components are expected to have a higher impact due to the systemic impact of asset manager and policy engagement

1. Bilateral Engagement	2. Multilateral Engagement	3. Asset Manager Engagement	4. Policy Engagement
<ul style="list-style-type: none"> <li>• Conduct <b>structured and focused bilateral engagements</b> with high emitting companies that have not set science-based targets</li> <li>• Require these companies to set targets aligned with the Paris Agreement and perform against those targets</li> <li>• Apply a structured engagement approach: Where necessary, we may escalate our response, including exercising our voting rights at shareholder meetings. In rare instances, we may restrict investment activities with companies following unsuccessful engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Be lead on or support investor-led <b>engagement</b> initiatives, where permissible by law.</li> </ul>	<ul style="list-style-type: none"> <li>• Working with <b>asset managers</b> in highlighting best practice for climate-conscious active ownership and supporting a just transition.</li> <li>• Have a strong asset manager engagement process to systematically address climate related stewardship</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Advocate</b> for, and <b>engage</b> on industry action, and public policies, for a low-carbon transition of economic sectors in line with science-based targets and with considerations for the associated social impacts.</li> <li>• These are actions such as help drafting position papers, Call for Actions, etc.</li> </ul>

## Climate Solutions Investments

The transition to a net-zero economy will require financing for the development of new and replacement of existing technology. The scale of the changes required will vary from industry to industry, with some sectors requiring more investments than others.

As one of the world's largest asset owners, Zurich will leverage its investments to help mitigate climate change and adapt to it.

We define Climate Solutions as investments in economic activities, technologies, or projects that contribute to climate change mitigation (including transition enabling) or adaptation. These are solutions that reduce greenhouse gases by avoiding emissions and/or by sequestering emissions already in the atmosphere, by facilitating the transition to a net-zero economy, or that contribute to climate change adaptation enhancing the resilience of people and assets against the effects of climate change.

We support Climate Solutions Investments by financing projects and initiatives that, among others, might contribute to avoided emissions, commonly referred to as scope 4 emissions, for example, renewable energy. We leverage our knowledge and proven investment process from Impact investing and real estate investments and count environmental impact investments (see also chapter [Impact investing](#)) and Green certified buildings towards our Climate Solutions Investments. Our impact investment approach, and hence our approach for Climate Solutions Investment, is strictly aligned to the [Principles for Impact Management](#) and have undergone [external verification](#) as part of our [Disclosure Statement](#).

Zurich invests in sustainable practices and energy-efficient technologies in real estate to certify relevant assets and to increase the share of green certified buildings. Green building certification refers to a set of standards and practices aimed at making buildings more environmentally friendly, sustainable, and energy-efficient, and create healthier living and working environments. There are more than 100 different green building certification systems, varying by region, focus and specific criteria. Some of the most widely recognized and adopted systems include LEED, BREEAM, and Minergie.



We are investing in climate solutions via the following asset classes:

- **Fixed income:** Green bonds enable capital-raising and investment for projects with environmental benefits. These may include renewable energy, energy efficiency, biodiversity conservation, pollution prevention and control, and others. As one of the largest private sector investors, Zurich invests in green bonds that follow the [Green Bond Principles](#).
- **Private equity funds:** Zurich invests in Impact Private Equity funds that support a low-carbon economy and encourage environmentally friendly technologies to help mitigate environmental risks.
- **Impact Infrastructure Private Debt:** We finance clean energy infrastructure and energy efficiency projects to transition to a zero-carbon economy, as part of our private debt lending portfolio.
- **Real Estate:** As a leading sustainable real estate investor, we are transitioning our global real estate investments towards net-zero greenhouse gas emissions by 2050. This includes developing and investing in certified green buildings.

Our investment strategy aims to benefit society and environment:

- **Mechanism:** Allocating capital to climate solutions means funding projects and technologies crucial for decarbonization.
- **Impact:** These investments directly contribute to reducing global greenhouse gas emissions by scaling up for example the deployment of clean technologies.
- **Actions:** Specifically, Zurich aims to increase its exposure to Green bonds that, for example, invest in scalability of renewable energy.

### Portfolio emission reduction

Zurich is focused on supporting the real economy in its transition to a net-zero world, guided by science. However, it is important to acknowledge that the real economy is not progressing at the pace recommended by science, creating a significant challenge for investors who are committed to decarbonizing their portfolio to net-zero by 2050 and investing towards a net-zero world. Consequently, defining net-zero portfolio pathways will take into account both scientific requirements and the needs of the real economy, while also considering the implications for a just transition. When setting portfolio emission reductions targets, we are dependent on change in policy and the real economy to achieve them.

- **Mechanism:** By systematically reducing our emission intensity of our portfolio, we progress to align our investments with a 1.5°C pathway.
- **Impact:** Our targets are set with two objectives: maximize our potential contribution towards a reduction of emissions and increase the resilience of our investment portfolio against negative effects stemming from climate change.
  - Reducing the financed emissions lowers the financial risks associated with high-carbon investments, such as stranded assets, while supporting the growth of sustainable industries.
  - Signaling to the market that low-carbon investments are not only viable but economically sound, encourages more investors to follow suit.

- **Actions:** While we will benefit from investee companies' own decarbonization (driven by new technologies and systems funded by climate solutions investments and company engagement, as described in the section above), portfolio actions will be required to reach our portfolio emission targets.
  - Taking measures such as integrating climate risk into investment decisions, and reallocating capital towards low-emission and climate-resilient investments.
  - Allocating more capital towards climate leaders and over time reducing our exposure to laggards, for example by divesting from fossil fuel companies (following our positions described on our website under [sustainability risk](#)) and reallocate assets to Green bonds that finance sustainable infrastructure projects.
  - Set targets and frameworks for our asset managers to drive changes across asset classes, investees and sectors. This includes breaking global targets down to individual asset manager mandates and constantly monitoring decarbonization performance.




## Reducing energy use and carbon emissions of our real estate portfolio

Real estate, including commercial and residential property, consumes a significant amount of energy and is a major source of carbon emissions. Institutional investors are major owners of real estate assets. Zurich has allocated over six percent of its investment portfolio to real estate, about half of which is currently held in Switzerland. The Swiss real estate portfolio has achieved its target to reduce emissions by 20 percent, measured against a benchmark set in 2010, already in 2020. As a leading sustainable real estate investor, we aim to achieve net-zero greenhouse gas emissions by 2050 in our global real estate investment portfolio by refurbishing of energy-inefficient properties, increase in the share of district heating and optimizing energy efficiency based on energy audits and data-based information.

## Zurich's 2030 targets for Investment Management

### Climate solutions

 Bring investments in climate solutions to **6%** of total group investment assets<sup>1</sup>


- The transition to a net-zero economy will require financing for the development of new and replacement of existing technology.
- Climate solutions** is defined as investments in economic activities that contribute substantially to climate change mitigation or adaptation.
- We are investing in climate solutions via the following asset classes: **fixed income, private equity funds, impact infrastructure private debt, real estate.**
- We are committed to build, over time, a portfolio of impact investments that helps to **avoid 5 million tons of CO2e emissions** per year.

Definition Climate Solutions Investments

Climate Solutions Investments	
<p>Environmental Impact Investing</p> <ul style="list-style-type: none"> <li>• Fixed Income</li> <li>• Private Equity</li> <li>• Private Debt</li> </ul>	<p>Clean Certified Buildings</p> <ul style="list-style-type: none"> <li>• Real Estate</li> </ul>


Notes:  
 (1) Climate solutions counts investments in environmental impact investments and green certified buildings;  
 (2) Against 2019 base line. Reduction of emissions intensity (scope 1 and scope 2). Emissions intensity is defined as metric tons CO2 equivalent per USD million invested and kilograms CO2 equivalent per square meter. Reduction targets in line with AOA suggestions of 40-60 percent emission reduction by 2030, to be aligned with science.

### Portfolio emissions

 Reduce emission intensity of listed equity portfolio and corporate bonds by **55%** and of real estate portfolio by **45%**<sup>2</sup>

- Zurich is committed to supporting the real economy in its transition to a net-zero world, guided by science. By systematically reducing our carbon intensity of our portfolio, we ensure our **investments to be aligned with a 1.5°C pathway.**
- Our targets are set with two objectives: maximize our potential contribution towards a **reduction of emissions and increase the resilience** of our investment portfolio against negative effects stemming from climate change.
- We will be allocating **more capital towards climate leaders** and over time **reducing our exposure to laggards**, for example by divesting from fossil fuel companies (following our **sustainability risk approach**) and reallocate assets to green bonds that finance sustainable infrastructure projects.

### Engagement

 Perform bilateral engagement with **20** high-emitting investees

- Our approach centres on the belief that simply divesting from high-emitting companies is less effective than **proactively engaging with them to drive the shift to more sustainable practices.**
- We will prioritize bilateral **structured** engagements with **20 high-emitting companies that have not yet set science-based targets.**
- We will lead or support investor-led **multilateral engagements initiatives** as well as **work with asset managers** by highlighting best practice for climate-conscious active ownership and work together for a **just transition.**
- We will keep advocating for and engaging on **industry action and public policies** for a low-carbon transition of economic sectors in line with science-based targets (SBT) and under consideration of social impacts.
- Finally, we believe that our impact will be even greater where an investee company is also a customer, so we plan to **coordinate engagement efforts** where appropriate.

We strongly believe that our integrated climate strategy not only mitigates climate risk but also creates positive climate impact, supporting a sustainable transition to a net-zero economy.

# Section VI:

Appendix: Creating a responsible  
investment culture



## Responsible investment in individual objectives

The following objectives are reflected and assessed as part of Zurich's individual objective setting and assessment process:<sup>7</sup>

Objective	Measurement	Who
Achieve impact ambition	<ul style="list-style-type: none"> <li>Progress made toward avoiding 5 million metric tons of CO2e emissions per annum</li> <li>Progress made toward reaching 5 million people through impact investments</li> </ul>	Global Group Investment Management team
Show leadership in responsible investment	Supports or, when applicable, leads locally the implementation and ongoing execution of all relevant responsible investment processes, including the interaction and engagement with internal or external asset managers as applicable	Strategy Implementation team
Effectively integrate environmental, social, and governance (ESG) factors into security selection decisions for all in-scope portfolios	<ul style="list-style-type: none"> <li>ESG integration minimum standards achieved for all in-house teams with in-scope portfolios</li> </ul>	Strategy Implementation team
	<ul style="list-style-type: none"> <li>Makes active effort to learn about ESG issues and how they affect risk and return</li> <li>Reflects third-party ESG data and analysis in security/asset selection and can provide examples of how this has influenced investment decisions; can discuss ESG risks and opportunities in the portfolio</li> <li>Raises ESG issues when interacting with investment counterparties (analyst; investee company representative; property manager, etc.); provides examples of such interaction</li> </ul>	Portfolio managers
Effectively integrate responsible investment into the asset manager life-cycle process	<ul style="list-style-type: none"> <li>Proactively engages with external asset managers on the topic of responsible investment and can explain asset managers' ESG integration practices</li> </ul> Prepares and facilitates discussion of responsible investment practices and ESG factors as part of portfolio review and relationship meetings; provides examples of such interaction	Strategy Implementation team
	<ul style="list-style-type: none"> <li>Proactively discusses, documents and assesses ESG integration practices in manager searches</li> <li>Prepares and facilitates discussion of responsible investment as part of relationship meetings</li> </ul>	Manager Selection team

<sup>7</sup> Each member of the global Group Investment Management team is expected to be assigned one or multiple objectives related to responsible investment relevant in the context of a specific role. The language in this section serves as a template for line managers to determine individual objectives for their teams as part of Zurich's annual objective setting and performance evaluation process, and may be adapted to reflect individual circumstances. The language refers to objectives for a specific year, shown for 2018, and is updated on an annual basis.

Objective	Measurement	Who
Invest in green, social and sustainable bonds	Grow investments in green, social and sustainability bonds, subject to market conditions and portfolio constraints.	Strategy Implementation team
	Evaluates, or supports the evaluation, of green bond investment opportunities in line with the green bonds investment strategy	Green Bond Coordinator, portfolio managers
Effectively integrate ESG factors into asset selection decisions	Actively supports the implementation of the global real estate ESG integration approach	Heads of Real Estate
Assess climate change-related macroeconomic risks and portfolio risk	<ul style="list-style-type: none"> <li>Formulate and review annually high-level climate change macro scenarios</li> <li>Identify and monitor relevant metrics/ actions indicative of progression on a specific scenario pathway</li> <li>Estimate potential climate change-related short-and-long-term impacts to our portfolio and mitigate identified major negative risks via portfolio actions</li> </ul>	Head of Macroeconomics, Global macroeconomist Responsible Investment team Strategy Implementation team
Reduce carbon footprint of the real estate portfolio	Steady progress toward reducing CO2e emissions per square meter for global real estate portfolio to net-zero	Real Estate team
Effectively integrate Environmental, Social, and Governance (ESG) factors into the Private Equity investment process	<ul style="list-style-type: none"> <li>Proactively discusses, documents and assesses fund managers' ESG integration practices</li> <li>Proactively engages with fund managers on the topic of responsible investment and can explain fund managers' ESG integration practices</li> </ul>	Private Equity team
Invest in Impact Private Equity funds	<ul style="list-style-type: none"> <li>Identify, evaluate and select impact investment opportunities in line with impact investing strategy</li> <li>Make steady progress toward allocating 10 percent of PE NAV to impact investing opportunities.</li> </ul>	
Support team in implementing the responsible investment strategy	<ul style="list-style-type: none"> <li>Participate in regular update calls with the Responsible Investment team</li> <li>Provide expertise and updates to their local team</li> <li>Engage in collaborative initiatives</li> <li>Support responsible investment processes</li> <li>Take part in bottom-up engagement</li> <li>Ensure ESG is discussed in Quarterly Review Meetings and local ALM investment committee (ALMIC).</li> </ul>	Responsible Investment Champions

## Responsible investment technical competency

Zurich applies a systematic process to define technical and managerial competency requirements for standardized position profiles used for recruiting and to determine training and development actions. Zurich has assigned the following technical competency requirements to all investment professionals (level depending on respective function):

### 1. Basic

- Understands the relevance of Zurich's Code of Conduct in general, and specifically 'sustainable value creation', in an insurance investment management context.
- Has basic understanding of Zurich's overall responsible investment approach.
- Is familiar with the basic terminology of responsible investment.
- Understands the commitment Zurich has made as a signatory of the Principles for Responsible Investment (PRI).

### 2. Intermediate

- Has a good understanding of, and explains, Zurich's overall responsible investment approach.
- Understands the concept of 'impact investing.'
- Understands the concept of 'ESG integration' and the principles underpinning it.
- Understands where and how, ESG factors can be integrated into the investment process for relevant asset classes.
- Where relevant, interacts with fund managers on all aspects of the responsible investment approach.

### 3. Advanced

- Has an excellent understanding of the concept of 'ESG integration' and the principles underpinning it.
- Understands how ESG factors drive investment risk and return, and uses ESG data and research.
- Assesses ESG factors and reflects them in investment analysis, recommendations or decisions.
- Is able to discuss ESG-related issues with representatives of investee companies or, where relevant, fund managers.
- Where relevant, evaluates fund managers on all aspects of the responsible investment approach.

#### 4. Expert

- Monitors and analyzes the marketplace and demonstrates deep knowledge of responsible investment practices, leading the design and implementation of Zurich's responsible investment strategy.
- Has a good understanding of corporate responsibility concepts and an excellent understanding of responsible investment in the context of Zurich's corporate responsibility strategy.
- Builds a relevant network with peers and industry participants and represents Zurich in relevant industry initiatives with the objective to advance responsible investment practices and set the agenda in terms of responsible investment for the industry.
- Communicates and advocates Zurich's responsible investment approach to internal and external audiences.
- Uses contacts and networks to source potential impact investments and supports the implementation of impact investing mandates.

#### Active engagement: responsible investment champions

Responsible investment has to be reflected in top-down strategy and processes but, equally importantly, bottom-up engagement is required for responsible investment practices to become part and parcel of everyday investment decision-making. At Zurich, each investment management team has chosen a responsible investment champion. The responsible investment champions:

- Support their teams in implementing and improving responsible investment processes.
- Engage in collaborative initiatives, such as the PRI or others.
- Share relevant research, news or other information related to responsible investment practices with their teams and
- Form part of a global network of over 30 responsible investment champions who exchange views and their experiences in regular conference calls.

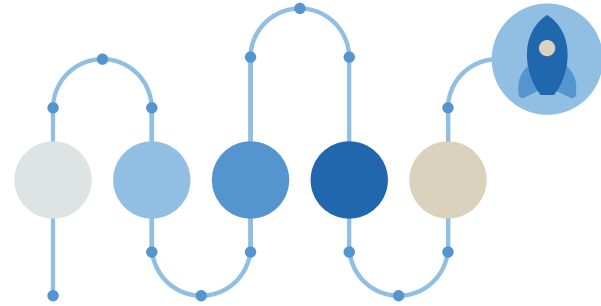
# Section VII:

Appendix: ESG integration

## Scope of ESG Integration

Zurich considers the following asset classes as **in-scope**, but reviews them periodically to stay on top of market developments:

- Active non-‘quant’ equity strategies.
- Active credit (financial credit; non-financial credit; municipal debt; direct lending).
- Passive investment strategies for equity and credit.
- Private equity.
- Real estate (direct investments).



The following asset classes are considered to be **out-of-scope**:

- Sovereign bonds<sup>8</sup>.
- ‘Quant’ investment strategies for equity and credit (in-scope for active ownership only).
- Asset backed securities and covered bonds.
- Money-market funds and cash.
- Hedge funds.
- Mortgages.
- Certain legacy investments (no further investment decision to be made).

For sovereign bonds, we incorporate ESG factors into our monitoring and reporting since social, political or environmental issues may affect the creditworthiness of a country. We use third-party data to assess a sovereign in terms of ESG criteria.

For passive or ‘quant’ mandates, active ownership practices are the main applicable element of ESG integration. On a case-by-case basis, we will decide whether ESG integration can be achieved through the use of appropriate ESG benchmarks for these mandates. Where ownership of voting rights lies with a fund vehicle over which Zurich does not have control, active proxy voting is not applicable.

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<sup>8</sup> Sovereign bonds: disciplined ALM practices and, in some cases, insurance regulation require Zurich to hold substantial amounts of minimum-risk assets denominated in local currency to back local liabilities. Zurich does not generally manage any multi-currency sovereign bond portfolios that would allow ESG factors to influence issuer selection.

## ESG integration for in-house securities mandates

The way in which different in-house asset management teams manage equity or fixed income portfolios can vary significantly depending on the structure and profile of local insurance liabilities (for example, the mix of general and life insurance business, and the specific type of insurance product offered); the size of the portfolio and portfolio management team; local regulatory requirements; local market structure, etc. In a few instances in-house asset management teams also manage specific funds that form part of insurance products offered directly to clients. As a result, the approach to ESG integration will also vary between teams and it is the responsibility of the local Chief Investment Officer to define the optimal approach together with the team. However, while some best practices may not be applicable under all circumstances, minimum standards related to the four basic requirements of ESG integration (described in this text) apply across teams:

### 1. Training

#### *Minimum standard*

- Responsible investment competency assigned to asset management team.
- Training modules covering assigned competency levels completed successfully.

#### *Best practice*

- Additional relevant training through seminars, webinars, etc.
- Review of selected academic research; responsible investment publications, etc.

### 2. Access to information

#### *Minimum standard*

- Access to ESG manager platform for all portfolio managers and investment analysts.

#### *Best practice*

- Use of ESG data from other data providers, such as Bloomberg, etc.
- Use of ESG research and analysis provided by brokers.
- Encouraging brokers to reflect ESG issues in research and analysis.

### 3. Investment process

#### *Minimum standard*

- Review of ESG research before making security selection decisions.
- Other things being equal, preference for issuers with superior ESG performance.
- Integration of ESG risk exposure and exposure to controversial business practices in reporting to the local ALM investment committee (ALMIC).
- Discussion of ESG risks and opportunities at investment team meetings.

#### *Best practice*

- Integration of ESG factors into bottom-up equity or credit investment research.<sup>9</sup>
- Integration of ESG factors into industry sector analysis.
- ESG analytics at a portfolio level.

### 4. Active ownership

#### *Minimum standard*

- Execute votes for public equity holdings in line with Zurich's proxy voting policy.
- Reviewing ESG research before interacting with investee company management (through existing channels such as investor meetings or calls, etc.) and discussion of relevant ESG issues besides other material issues.
- Use of PRI clearinghouse platform for engagement activities on priority topics.
- Discuss active ownership examples and progress in annual meetings between local teams and Zurich's Group Responsible Investment team.

#### *Best practice*

- Execute votes for public equity holdings in line with Zurich's proxy voting policy.
- Proactively establishing and maintaining dialogue with brokers, ESG data providers, industry bodies, investee companies with material ESG issues, or regulatory bodies to support responsible investment matters Zurich has identified.
- Initiating or joining engagements on priority topics with external asset managers or peers.
- Actively taking on and championing topics for engagement through the PRI clearinghouse platform or other suitable channels.

### Manager review

ESG integration practices at in-house investment management teams are reviewed through Zurich's individual objective assessment process (see [Responsible investment in individual objectives](#) for more detail) and each team reports on responsible investment practices on an annual basis through a standardized reporting format.

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<sup>9</sup> Only few Zurich teams conduct bottom-up research in-house

## Manager selection for external mandates

At Zurich, Group Investment Management always aims to appoint the most suitable manager for each portfolio, whether internal or external. Currently roughly two-thirds of Zurich's assets, and an even higher proportion of securities mandates, are managed by external asset managers. A stringent, fact-based manager evaluation process is applied. Selection criteria include the performance track record, investment philosophy and process, responsible investment practices, research and trade execution capabilities, risk management, organization and operations processes and costs. A dedicated manager selection team is responsible for this process. Zurich's asset manager selection skill and capabilities provide a distinct competitive edge relative to Zurich's major insurance peers, who tend to manage their investments in-house. It allows Zurich to flexibly decide on the best investment management skills available, be it either in-house or outsourced, to manage different mandates.

## Alignment in investment strategy

Alignment between an outsourced mandate and Zurich's profile and duration of liabilities is achieved through investment guidelines, which provide a set of rules the portfolio manager has to observe when managing the portfolio. It includes investment objectives, describes the investments universe, benchmarks and outlines investment/risk limits and restrictions. In this set of rules, the duration of a fixed income portfolio is clearly stated and to what degree the manager can deviate from it. As an example: The duration of the portfolio is five years and may deviate from this target duration by +/- one year. Zurich has investment guidelines for every portfolio and the weighted combination of all the fixed income durations of our portfolios tie into the duration of our liabilities.

## Considering the long-term financial and non-financial performance of assets

When selecting asset managers we examine how the manager, more specifically their analysts, evaluate securities and how that information is used in the portfolio construction. For more specific information on integrating ESG information, refer to the next section.

A mid-to-longer-term horizon/low turnover portfolio is always preferable to us since trading is expensive, both in terms of brokerage fees and use of liquidity. Moreover, in recent years market participants also face decreasing liquidity in credit markets (a large part of our investments) which as a consequence has increased the importance of longer-term investment horizons.

However, we do not force or otherwise incentivize our asset managers to mid- and long-term views, as this is hard to prescribe and measure and could furthermore have effects that negatively impact performance.

## Performance evaluation and remuneration

We formally assess all portfolios and asset managers on a quarterly basis on both service and performance. All assessments are recorded and underperforming portfolios are put on a watchlist and treated as is specified in our policies. Consistently underperforming managers are deselected and portfolios assigned to a new asset manager.

As outlined earlier, we direct the asset manager with the investment guidelines which determine how they have to invest the funds. If the liabilities are long, so will be the duration of the portfolios. We do not tie remuneration of asset managers to performance or other portfolio outcomes, as we believe that this sets wrong incentives. We pay our asset managers a management fee which is competitive, considering asset class and size of investments.

### Monitoring turnover cost

Costs are very important to us, whether direct (such as asset management or brokerage fees) or indirect (such as market impact, bid-ask spreads, structuring or other). During the selection process for a new manager, we compare these costs as well as the average portfolio turnover and will take these factors into consideration in our final decision. We tend not to select asset managers with high turnover and/or high costs.

Furthermore, and depending on the mandate we might set restrictions on turnover per year. In portfolios where there is no turnover restriction, Zurich's responsible CIO of the unit will seek the discussion with the portfolio manager if the turnover or cost is greater than expected and will seek to find a solution if the turnover is needlessly high.

### Duration of manager contracts

At Zurich we believe in long-term relationships with our asset managers. Managing insurance assets well needs a lot of specific know-how, capabilities and experience which are not prevalent in every firm. We therefore take great care when selecting a new manager and ensure that they will possess all the resources, knowledge, experience, processes and systems in the quality and quantity that we require. Once they are selected, we work with them closely and keep in constant contact in order to minimize mistakes through miscommunication or misunderstandings. As outlined above, we measure and assess each portfolio and each manager on a quarterly basis and will give feedback if and when suitable in order to counter harmful developments. This philosophy and close cooperation has served us well over the last decades and our turnover of asset managers is very low.

### ESG integration for external mandates



Zurich strives to fully reflect the four basic requirements for successful ESG integration (described earlier) in its asset manager life cycle process for all in-scope assets.

## Manager selection

A set of responsible investment questions, which are reviewed and updated periodically, is integrated into the request for information (RFI) and request for proposal (RFP) questionnaires, and is evaluated with an explicit weighting. Key questions in the list include the following:<sup>10</sup>

- Please describe your overall philosophy regarding, and approach to, responsible investment, including how you think environmental, social, and governance (ESG) factors impact risk-adjusted performance. Address how long-term views are generally incorporated into the investment process.
- Are you a signatory of the PRI? If not, please explain your decision.
- Please describe how you integrate environmental, social and governance (ESG) factors into your investment process, particularly with respect to security/asset selection and risk management. Using a specific example of an ESG-related risk or opportunity, describe how the process in place has influenced the decision-making. Your answer should also address: 1) Who is primarily responsible for the analysis of ESG factors? 2) What resources (research, analytical tools, etc.) are available to portfolio managers and analysts to assess ESG factors? 3) If you have a dedicated ESG team, a description of how portfolio managers and equity/credit analysts integrate the input of the ESG team in their work; elaborate on the communication flow (meetings, research reports, etc.).
- If available, please provide a copy of your position statement. If a signatory of the PRI, please provide a brief description of how principles two to six are addressed by your organization.
- As part of your risk management or related processes, do you systematically assess the impact of ESG factors on the financial performance and do you capture exposure to any specific ESG-related risk factors as part of your portfolio-level risk analytics? If so, do you prepare regular reports on ESG risk-factor exposures?
- Please describe your proxy voting process and provide your proxy voting policy as attachment. If you do not actively vote all proxies and/or do not incorporate environmental and social issues in your policy, please explain why.
- Do you discuss specific ESG issues as part of systematic direct engagement with investee company management? If yes, please describe the process and provide three examples. If no, please explain why not.
- Please describe any relevant ESG-related training that portfolio managers and equity/credit analysts receive. If you have a dedicated ESG team, please outline the organization of the team and detail the experience and education of the team members. Use the attached Excel sheet.
- If applicable, please indicate your willingness to share the following materials with clients: selected sections from the PRI questionnaire as prepared for annual PRI reporting, as well as the PRI's analysis of relative performance; portfolio-level report(s) on ESG factor exposure.

The manager selection and responsible investment teams work together to determine the appropriate weight and applicability of each question on a case-by-case basis and in evaluating the responses.

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<sup>10</sup> The questions shown in this section serve as an internal template for Zurich's RFP process with external asset managers. Language is adapted on a case-by-case basis to take into account the individual nature of each investment mandate. The language used here does not represent a recommendation to any third party to use this or similar wording in RFPs.

## Manager appointment

Zurich expects its asset managers to reflect the four basic requirements of ESG integration (see earlier sections) in their investment approach. To formally express these expectations, Zurich includes the following language in investment management agreements (IMA):<sup>11</sup>

### 1. General Principles

- 1.1. In pursuing the investment objectives set forth in the investment guidelines, the manager will have a process for assessing and monitoring current or potential investments in relation to relevant long-term factors such as environmental, social and corporate governance issues (the 'ESG factors') unless otherwise advised by the client. The manager will ensure that its staff receives adequate training, access to relevant data and information, and applies due care and diligence to applying this process, including considering the extent to which the ESG factors generate investment risks or opportunities.
- 1.2. The manager seeks to act in the best economic interests of the client by taking ESG factors (identified as relevant) into account when making investment decisions. All else equal, the manager will prefer securities which, in the Manager's assessment, show superior environmental, social, and governance practices.
- 1.3. To the extent the manager engages directly with the management of investee companies as part of its regular investment process, the manager will discuss ESG factors identified as relevant.

### 2. Exercise of proxy voting rights

- 2.1. The investment manager shall exercise any voting or other ownership rights (whether directly or through directions to a custodian and including but not limited to, conversions, subscriptions, exchanges, stock splits, rights, offerings, tender offers and other corporate actions) attached to any equity investments in the portfolio in accordance with the manager's voting policies (and subject to any voting guidelines agreed with the client) and in the manner in which the manager believes to be in the best interests of the portfolio and the client, as well as with a view to achieving best practice standards of corporate governance and equity stewardship and with the aim of adding value to, and/or preserving value in the portfolio, as well as reducing unrewarded risk exposures.
- 2.2. Should the manager become aware of a conflict of interest or potential conflict of interest, the manager may vote such proxies only in accordance with the conflicts of interest procedures set forth in its written policies. To the extent the client will in the future have a voting policy of its own, the manager and client shall in good faith negotiate revisions to this provision.
- 2.3. The manager shall keep adequate records of its proxy voting on behalf of client and will make available to the client on a regular basis, but at least annually, both summarized as well as detailed information concerning the exercise of the voting rights, including but not limited to voting decisions by holding position and ballot, in electronic format. In addition, the manager will promptly provide the client with any amendments or modifications to its proxy voting policies.

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<sup>11</sup> The language shown in this section serves as an internal template for Zurich's IMAs with external asset managers. Language is adapted on a case-by-case basis to take into account the individual nature of each investment mandate. The language used does not represent a recommendation to any third party to use this or similar wording in IMAs.

### 3. Reporting

- 3.1. The manager shall at least annually make available to the client a written position statement describing the manager's approach to the inclusion of the ESG factors in its investment decisions and, upon the client's reasonable request, the manager shall discuss any achievements in implementing those practices.
- 3.2. The manager will discuss, upon the client's reasonable request, exposures to material environmental, social, and governance risk factors, and a watch list of portfolio investments exposed, if applicable, as identified by the manager, to particularly controversial ESG issues, with an explanation of how the manager has sought to identify, monitor and manage such exposures, including any action taken to directly engage with the management of investee companies.

#### Manager review

Zurich uses the following elements to formally integrate responsible investment practices into the manager monitoring process:

- Use of a detailed questionnaire to capture responsible investment practices applied specifically to Zurich portfolios.
- Discussion of ESG risks and opportunities at a portfolio level as part of formal performance review meetings.
- Discussion of ESG performance as part of Asset-Liability Management Investment Committee (ALMIC) meetings.
- Discussion of responsible investment practices at formal senior-level relationship meetings.
- Integration of responsible investment practices into Zurich's proprietary asset manager evaluation system.

#### ESG integration in the private equity investment process

As part of a strategic allocation to the private equity asset class, Zurich commits up to USD 400 million annually to private equity investments through a mix of primary fund investments, secondary investments, and selected co-investment. With the exception of selected co-investments, Zurich does not provide equity capital directly to privately held companies. A team of dedicated private equity specialists is responsible to manage Zurich's private equity investments and select private equity fund managers. As with security mandates, Zurich strives to fully reflect the four basic requirements for successful ESG integration (see above) in its private equity investment process. Responsible investment practices are formally reflected in the private equity investment process manual at the following process stages:

- Investment due diligence.
- Investment vetting and approval.
- Execution and funding.
- Risk management and reporting.
- Manager selection.

A set of pre-defined questions are used to guide the assessment of responsible investment practices at the fund manager as part of the due diligence:<sup>12</sup>

- How does the general partner (GP) address ESG issues when analyzing investment opportunities?
- How are ESG issues included in the investment decision process?
- Is there a dedicated team focused on ESG issues?
- Does the GP provide ongoing ESG training for the relevant staff?
- Is environmental and social impact measured?
- Monitoring: How are ESG issues monitored at the portfolio company level? Is there a framework in place?
- Has the GP developed an internal ESG policy?
- Is data on ESG issues systematically collected by the GP?
- Provide specific examples on how ESG issues were addressed.
- Reporting to limited partners (LP): Is there a formal ESG reporting process in place? How often are LPs updated? What data are disclosed?
- Is the GP a signatory of the Principles of Responsible Investing (PRI)?
- The PE and responsible investment teams work together to evaluate responsible investment practices and summarize findings for discussion by the investment committee.

Upon investment, Zurich strives to include the following language in side letter agreements with the General Partner:<sup>13</sup>

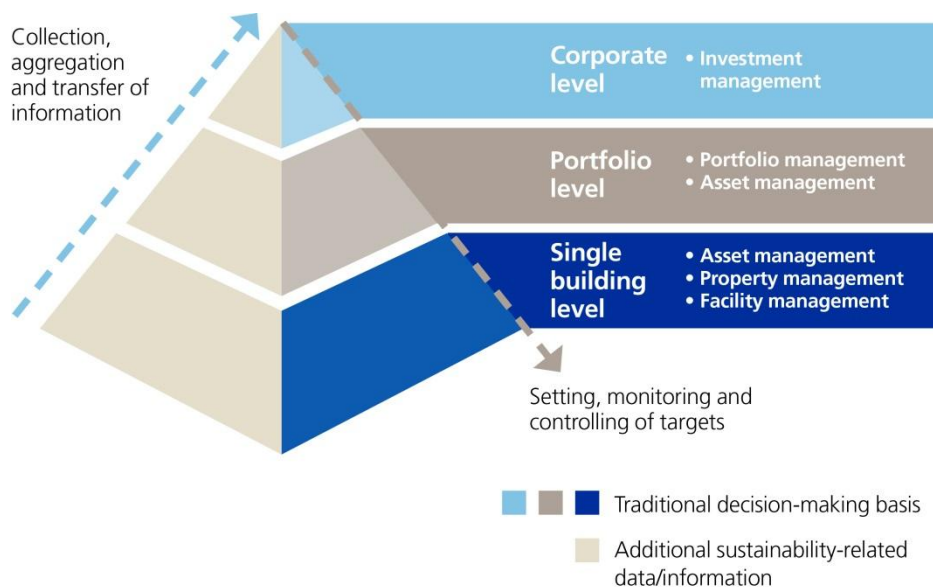
Responsible Investing Statement of Policy: The general partner acknowledges that it has read the 'Responsible Investing Statement of Policy' of Zurich Insurance Group AG ('Zurich'), which is attached to this letter as Annex I. Zurich acknowledges that the General Partner's acknowledgement does not impose any obligations on behalf of the general partner.

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<sup>12</sup> The questions shown in this section serve as an internal template for Zurich's private equity due diligence process with private equity fund managers. Language is adapted on a case-by-case basis to take into account the individual nature of each commitment to a private equity fund. The language used here does not represent a recommendation to any third party to use this or similar wording in due diligence questionnaires.

<sup>13</sup> The language shown in this section serves as an internal template for Zurich's side letter with General Partner. Zurich includes responsible investment language in selected agreements. Language is adapted on a case-by-case basis to take into account the individual nature of each investment mandate. The language used does not represent a recommendation to any third party to use this or similar wording in IMAs.

Annex I – Statement of Policy: The investor’s ultimate parent entity, Zurich Insurance Group Ltd ('Zurich'), strives to manage its assets as a responsible investor and believes that responsible investing requires recognizing certain principles associated with environmental, social, and governance ('ESG') issues. Zurich believes that these principles are embodied in the Principles for Responsible Investing ('PRI'), to which Zurich is a signatory. Zurich believes that these initiatives will ultimately benefit our investors through the creation or manufacture of services or products in ways that minimize environmental impact, the promotion of reasonable treatment for all stakeholders, and ensuring appropriate governance. Zurich also believes that embracing ESG matters enhances the reputation of private equity, which will benefit the industry and our investors. Consequently, it is Zurich’s policy to apply the PRI to its own investment practices, and Zurich will encourage those with whom it invests to adopt them as well. As a limited partner in private equity funds, Zurich or its affiliates must delegate the responsibility for selection and management of individual investments to the general partners of the funds. Zurich recognizes that the PRI are voluntary and do not preclude investment nor require divestment; however, it is Zurich’s policy to engage its managers on these issues during due diligence and through subsequent monitoring. Zurich will periodically report on its efforts to gauge the effectiveness of its own efforts and those of its managers with the PRI.



**ESG Dialogue:** The General Partner hereby agrees to use commercially reasonable efforts to discuss environmental, social, and governance ('ESG') issues, risks and opportunities identified by the General Partner as material or otherwise deemed relevant by the General Partner at the level of the Partnership’s portfolio companies on a periodic basis upon the request of the Investor.

**ESG in the Investment Process**

The General Partner shall use commercially reasonable efforts to assess relevant risks and opportunities prior to making investments for the Partnership and shall ensure that its investment process, systems and staff support the identification of ESG factors that may be material to any investment or otherwise deemed relevant by the General Partner.

As part of periodic update meetings with fund managers, the PE team reviews any material developments regarding ESG issues.

## ESG integration in the real estate investment process

To assure a globally aligned ESG integration approach for real estate investment, the strategy is set, monitored and controlled top-down. Data is collected, aggregated and transferred bottom-up using our global real estate management information system.

As part of the annual review meetings with the property manager, the local asset manager discusses the property manager's approach to include ESG factors in their daily facility and property management decisions.

The local real estate asset manager reports annually to Group Real Estate during the annual strategy review meeting. The basis for this discussion is the ESG scoring of the portfolio which is available in the real estate information system. The local real estate asset manager provides a short overview of the initiatives undertaken and the effects of such efforts on the overall rating of the portfolio and of specific assets.

Extended decision-making basis at all corporate levels (Source: UNEP FI, May 2014, Sustainability Metrics)

The strategy for implementing ESG in real estate is based on three pillars which take into account local best practice and provide a global framework to assess potential acquisitions as well as the existing portfolio.



1. ESG risk factors are assessed by the local real estate asset manager using Zurich's real estate information system. New acquisitions need to achieve an ESG score of at least three out of five. The ESG performance of the existing portfolio is made visible in the nine-box grid where the ESG rating of every property of the portfolio is shown.
2. The local real estate asset manager aims to increase the share of labeled properties wherever reasonable and wherever such certificate is expected to improve risk-adjusted long-term financial returns.
3. The local real estate asset manager aims to reduce the emission of greenhouse gas and other consumption resources in close collaboration with the local property and facility manager by setting, monitoring and controlling emission targets and specific initiatives such as waste separation.

# Section VIII:

## Appendix: Engagement

## Scope

Zurich's investment strategy – incorporating our approach to responsible investing – calls for us to monitor not only the topics traditionally of interest to investors, such as a company's strategy and financial performance, but also environmental, social and governance (ESG) risks and opportunities in our investment holdings, as well as apply an active ownership approach. We define active ownership as proxy voting and active engagement with companies in which we invest. Direct engagement with companies we invest in may be used to share general investor feedback with a company in regard to its strategy and both financial and non-financial performance, as well as positively influence decisions related to ESG. Academic research shows that successful engagement with responsive companies can improve corporate governance as well as a company's management of environmental and social issues, thus lowering downside risks and improving long term performance.<sup>14</sup> Engagement can also serve to help gather or clarify information. Such information, in turn, informs proxy voting decisions, and helps to integrate ESG factors in valuations. Engaging companies on these topics also allows Zurich to share our philosophy and approach to responsible investment and corporate governance with them.

Accordingly, at Zurich, engagement is defined as a set of two complementary approaches:

- Direct or bilateral dialogue with investee companies geared toward gathering 'traditional' information regarding strategy and finances and assessing their approaches to ESG issues as well as influencing their behavior in certain instances as part of our ESG integration strategy.
- Working with the broader market to achieve desired goals with regard to ESG issues as part of our advancing together strategy.

Zurich believes that direct engagement, done where possible without incurring undue costs, is in our best economic interest and aligned with our desire to safeguard investments. These investments are made with the aim of achieving sustainable financial success and based on prudent, responsible business behavior, including Zurich's Code of Conduct, or equivalent.

Proxy voting is governed under a separate policy and guidelines, which can be found [here](#).



## Objectives

As we implement Zurich's responsible investment approach, we are following a set of specific objectives:

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<sup>14</sup> See: Active Ownership (2012), Dimson, Karakas & Li; Returns to Shareholder Activism: Evidence from a Clinical Study of the Hermes UK Focus Fund (2009), Becht, Franks, Mayer & Rossi; Private ESG Shareholder Engagement and Risk: Clinical Study of the Extractive Industry (2015), Höpner, Oikonomou, Zhou.

- Engaging on both a bilateral and multilateral basis with investee companies on a case-by-case basis to either:
  - Acquire more information about ESG as well as overall strategy, management and issues of investee companies.
  - Encourage improved/increased ESG and/or impact disclosure.
  - Exert an influence on investee companies, seeking to improve their overall business practices, including ESG practices and ESG footprint.
- In addition, we engage with regulatory bodies and the broader spectrum of financial market participants to:
  - Encourage improved/increased ESG and/or impact disclosure.
  - Influence and improve broader corporate practice on ESG issues.
  - Support the mainstreaming of ESG integration and impact investment.
  - Advocate for regulatory frameworks that are supportive to scaling responsible investment with integrity.
  - Champion ESG topics identified as material to Zurich.



## Prioritizing our engagement

We apply both a top-down and bottom-up approach to identify and prioritize engagement topics, allowing investment decision-makers to play an important role in developing our programs. Top-down decisions are based on strategic considerations and driven by Group functions, whereas bottom-up decisions are based on the portfolio level and are driven by investment decision-makers, such as portfolio managers.

### *Top-down:*

- Topics of greatest priority are aligned with Zurich Insurance Group's business strategy, sustainability strategy, responsible investment strategy and existing external commitments (such as the UN Global Compact, The Investor Agenda, and others) and regulation, or local stewardship codes, to which Zurich voluntarily adheres.
- As part of the Zurich net-zero strategy, our engagement is strongly tilted towards understanding the climate strategies of the engaged companies and encouraging them to take measures to reduce their emissions. See more detail further down under Top-down company engagement process on climate action.

### *Bottom-up:*

- Financially material long-term ESG trends.
- Financially most-material ESG factors in terms of geography/industry sector/company in the portfolio manager's universe.

We aim to efficiently apply these relevant prioritization factors both top-down and bottom-up to companies:

- That breach certain predefined norms (external or Zurich-specific).
- Which have significant exposure to ESG areas of concern.
- Which raise significant concerns in regard to their corporate strategy and financial performance.
- In which Zurich has sizeable holdings.
- Whenever a company initiates dialogue as part of the investment process.

On a case-by-case basis, Zurich might also choose to join multilateral engagement platforms. Such decisions are based on the ability of a particular group to maximize the expertise of a knowledgeable organization or a chosen collective platform. This aligns well with Zurich's prioritization approach described here. Where this approach is used, we feel we can add value to the multilateral approach and achieve greater impact.

## Method of engagement

We apply both a top-down and bottom-up approach to conduct our engagement activities using a variety of teams such as:

### *Top-down:*

- Group Responsible Investment team.
- Group Sustainability team.
- Group Public Affairs team.
- Group Sustainability Risk team.
- Group Commercial Insurance Sustainability team.
- Investment Management Market Strategy and Macroeconomics team.
- Membership in industry bodies.

### *Bottom-up:*

- Investment decision-makers such as portfolio managers, financial analysts, dedicated engagement and stewardship teams

Both internal and external asset managers are required to engage on relevant business and ESG issues in discussions with investee companies, either as part of regular company meetings, or through separate channels.

The following minimum requirements and best practice with regard to engagement have been agreed with in-house asset managers:

## Engagement

### *Minimum standard:*

- Reviewing ESG research before interacting with investee company management (through existing channels such as investor meetings or calls, etc.) and discussion of relevant ESG issues besides other material issues.
- Using the PRI clearinghouse platform for multilateral engagement activities on priority topics.
- Discuss active ownership examples and progress in annual meetings between local teams and Zurich's Group Responsible Investment team.
- Engage with external asset managers at least once a year to support the integration of climate in their investment strategy and ensure they set net-zero targets.

### *Best practice:*

- Proactively establishing and maintaining dialogue with knowledgeable counterparties, such as Banks, ESG data providers, industry bodies, investee companies with material ESG issues, and industry or regulatory bodies to support responsible investment matters Zurich has identified.
- Initiating or joining engagements on priority topics with external asset managers or peers.
- Actively taking on and championing topics for engagement through the PRI clearinghouse platform or other suitable channels.

For more information on how Zurich implements its overall responsible investment strategy by external asset managers, please refer to [section VI](#).

## Top-down company engagement process on climate action

Corporate engagement is a key mechanism for investors seeking to mitigate systemic climate risks and support progress toward a net-zero economy. For climate engagements, we consider industry best practice approaches and frameworks, including those outlined in publications from NZAOA, IIGCC and other leading initiatives that align with our long-term interests.

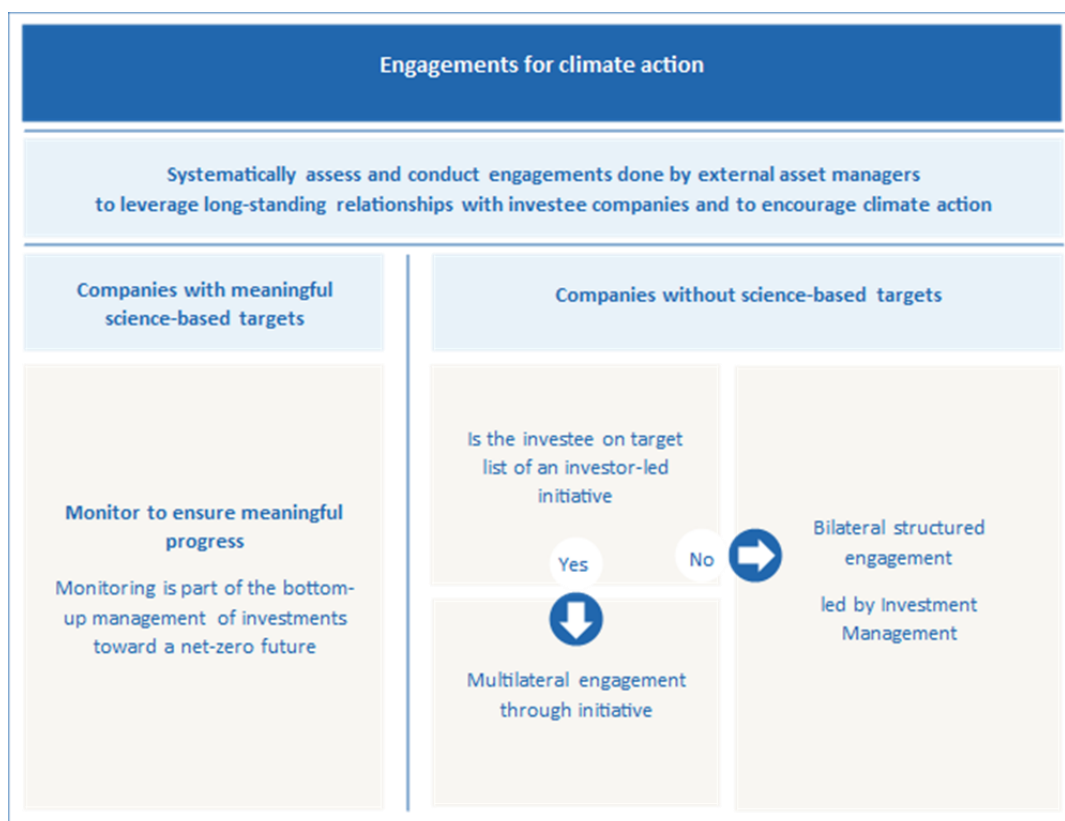
As part of Zurich's active ownership approach on climate, we prioritize engagement with companies that have a material influence on real-economy emissions. Our top-down efforts concentrate on high-emitting companies that do not yet have credible science-based targets, where targeted engagement has the greatest potential to accelerate real-economy emissions reductions. As discussed in the above section, Zurich has various possible methods of engagement and for climate action, we leverage on asset manager engagement and corporate engagement. Zurich systematically evaluates how external asset managers engage with investee companies, verifying that their stewardship activities consistently promote improved climate practices. Our top-down corporate engagement framework distinguishes between multilateral and bilateral engagement approaches, enabling Zurich to encourage climate action in a manner that is both targeted and aligned with broader market efforts.

### Prioritization process

Zurich first assesses whether a company has science-based climate targets. For companies with meaningful targets, Zurich monitors progress as part of the bottom-up management of investments toward a net-zero future.

For companies without science-based targets, Zurich evaluates whether the company appears on a list of an investor-led initiative. Where this is the case, Zurich may participate in or support multilateral engagement efforts. Such multilateral engagements allow us to reinforce shared expectations, and contribute to sector-wide progress toward climate transition goals.

When a company does not have science-based targets and is not covered by an investor-led initiative, Zurich may conduct a direct or bilateral structured engagement led by the Group Responsible Investment team.



## Direct structured engagement process

In scope of our bilateral corporate engagement activities are all companies in which Zurich is invested via listed equity or listed fixed-income holdings. The process follows a four-step approach by screen, review, and selection, followed by contact and defining objectives, a period of ongoing conversation and progress monitoring, and ultimately taking action with ongoing reporting supporting each stage.

### 1. Screening, research / review, and selection

Zurich identifies companies where bilateral engagement can have the most meaningful impact, using external data sources and internal analysis to assess emissions intensity and transition preparedness. This process enables Zurich to concentrate its efforts on companies that are furthest behind in their climate journey. Whenever possible, Zurich builds on insights and interactions from previous engagements with the same company to ensure continuity, reinforce expectations and maintain a consistent dialogue over time. Where investee companies are also insurance clients, we coordinate with our underwriting sustainability team on engagement efforts.

### 2. Contact and defining objectives

Zurich initiates an engagement by sending a letter/ email to the company's investor relations or sustainability contacts. This communication outlines our intention to discuss the company's climate strategy and identify opportunities for progress. Through structured dialogue, Zurich works collaboratively with the company to define feasible, objectives and timelines.

### 3. Ongoing conversation & monitor progress

Zurich maintains regular communication with the company to monitor progress against the agreed objectives. We recognize that each company's decarbonization journey is unique, and not all companies will be immediately positioned to set science-based targets. Zurich encourages credible next steps toward transition planning and external validation where relevant. Engagements are carried out in close partnership with our local investment management teams to ensure relevance and practical alignment at the company level.

### 4. Take action

If progress remains insufficient or expected actions are not taken within a reasonable timeframe, Zurich may consider appropriate active ownership measures consistent with our responsible investment framework.

Where necessary, we may escalate our response, including exercising our voting rights at shareholder meetings. In rare instances, we may restrict investment activities with companies following unsuccessful engagement.

## Reporting

Zurich reports its engagement activities each year in the Annual Report. We disclose the number and topics of our bilateral corporate engagement targets and asset manager engagement process.



## Conflicts of interest

General principles that Zurich adheres to in dealing with potential conflicts of interest are described in the Zurich Code of Conduct and the Group policy governing conflicts of interest and external engagements. All bottom-up engagements, meaning those that are conducted directly by Zurich's investment decision-makers, are conducted in line with Group Investment Management's mandate to generate superior risk-adjusted economic returns on the investments for the benefit of policyholders and shareholders. No consideration shall be given to an investee company's potential business relationships with Zurich outside of Group Investment Management. When gathering additional information from investee companies, non-public material information shall not be sought or used in the investment process. Top-down engagements can be conducted by the Group Responsible Investment team in conjunction with other Group Functions as described above. Such engagements may target companies that are Zurich's clients or investees or both, and are subject to Zurich's conflict-of-interest policy.

## Transparency

From a bottom-up perspective, Zurich will prefer private over public engagements, especially when dealing directly with investee companies. Engagements via the PRI clearinghouse platform, or signing investor letters, will by definition be public.

Zurich collects and shares its efforts with regard to engagement and also its successes in such engagements internally, and provides updates from the engagement programs of external asset managers through proprietary questionnaires sent out as part of the annual review process. Engagements can also be discussed in meetings between the Group Responsible Investment team, local responsible investment champions and the portfolio managers where such investments are reviewed. Zurich shares its overall engagement approach as well as selected examples in its annual PRI Transparency Report, which is published on both the PRI and Zurich websites. No full public listing of all engagements is planned due to considerations regarding both the practical ease of reporting, as well as academic literature suggesting that private engagements foster more trust in those companies that investors engage with.

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