Responsible Investments Policy

Regulation (EU) 2019/2088
on sustainability related disclosures in the Financial Services sector

GENERALI

Being part of a global Insurance Group, our investments are a key aspect of part of how we conduct business. It has a significant impact on the real economy, allowing us to actively integrate aspects such as environmental protection and respect for human rights.

As asset owner, we believe that the proactive integration of Environmental, Social and Governance ("ESG") factors into the investment process for our insurance portfolios, across asset classes, will support us to achieve both financial returns and social value. Through Engagement and Voting activities, we seek to have an influence on issuers' behaviors.

We are signatories of the United Nations Global Compact (2007), Principles for Responsible Investments (2011), Paris Agreement (2015), TCFD (2017), Net Zero Asset Owner Alliance (2020). In line with these initiatives, for a number of years now we have been including in our investment strategies also Environmental, Social and Governance (ESG) criteria, without sacrificing profitability. This allows us to have a positive impact on our stakeholders, reduce the risk for our investments and protect our reputation.

Generali Group formalized its commitment to responsible investment in 2006 and in 2010 its own Group Ethical Guidelines were approved. In 2015, we further strengthened our commitment setting up our Responsible Investment Group Committee, regulated by the Responsible Investment Group Guideline (https://www.generali.com/our-responsibilities/responsible-investments), the objective of which is to steer the management framework for integrating the ESG factors in the investment decision making process.

In 2020, we also published our Active Ownership Group Guideline, outlining our objective to leverage our role as an institutional investor to foster change through investment.

Generali' Board of Directors adopted all the recommendations of the new Italian Corporate Governance Code (https://www.borsaitaliana.it/comitato-corporate-governance/comitato/comitato.htm): such decision has been communicated to the market on October 14th, 2020. Such Code, that aims to ensure the constant alignment of the Italian listed companies to international best practices, embraces the concept of sustainable success, that consists of creating long-term value for the benefit of the shareholders, taking into account the interests of other stakeholders relevant to the company. As a consequence, sustainable success is now an objective that guides the actions of our Board. This objective has to be integrated in our ordinary course of business and cascaded in the whole Generali Group organization.

Moreover, on the 27 November 2019 the European Parliament and the Council adopted Regulation (EU) 2019/2088 "Sustainable Finance Disclosure Regulation" or "SFDR" in order to harmonize the disclosure and increase transparency with regard to the integration of sustainability factors and the consideration of adverse impacts, which entered into force on the 29 December 2019.

Generali, with the aim of fulfilling the requirements laid down by the European Regulations, publishes the present disclosure which comprises of:

- The policy on the integration of sustainability risks in the investment decision making process (as laid out by Article 3 of the SFDR)
- The statement on due diligence policies regarding Principal Adverse Impacts (as laid out by Article 4 of the SFDR).

How Generali integrated the sustainability risk into its investment process

A sustainability risk is a risk linked to Environmental, Social and Governance (ESG) events or conditions, that, if realized, can have a potential material negative impact on the invested companies assets and liability, with a consequent negative impact on the value or performance of investments. The identification of sustainability risks that can have a material impact on the value of our investments is our duty toward our stakeholders and our investors.

E, S and G factors

Environmental, Social and Governance (ESG) factors provide a lens to evaluate the solidity of a company's operations. Lapses in the integrity of the behavior of a company have a material impact on its business and provide early warning of severe underlying issues in the company itself.

Environmental violations (E factor) might not only indicate a lack of responsibility but can lead to fines and important costs to remediate the environmental damages.

In the same way, Human Rights and Labor Rights violations (S factor) can tarnish the company's reputation and reliability, highlighting at best lack of awareness of the company bottom line operations and at worst lack of basic ethical principles. A company with a tarnished reputation can see its products boycotted, incur difficulties in collecting capital, collect fines and penalties, and erode business opportunities.

In case of corruption (G factors), businesses face high and related ethical and business risks and potential costs when they fail to effectively combat corruption. There are legal risks involved as well as impacts on the business performance.

Generali detects these sustainability risks via an in house assessment, which aims to evaluate the compliance of the companies with the principles of UN Global Compact. As mentioned in our Responsible Investment Guidelines, which provide a framework for the inclusion of ESG factors in the investment choices where the investment risk is born by the insurance companies or shared with the policyholders, the assessment of cases of Human Rights violation, Labour Rights violations, Environmental damage and Corruption can ultimately lead to the exclusion of companies from our investment targets. Engagement initiatives are also used to further evaluate their positioning. The dialogue with the companies and the engagement activities allow us to better understand some issues and express our view to the company.

These assessments are updated continuously in order to immediately detect eventual new cases which might refer the companies in our portfolio.

These cases are discussed and assessed within our Responsible Investment Committee (held two times a year), that define the new exclusions as well as review the methodological approach to reinforce and improve the assessment criteria.

Climate Change risk

As mentioned by the World Economic Forum in their latest Global Risk report, the risks linked to environmental aspects are increasing year after year, both in terms of likelihood and magnitude of impact. Among the different risks linked to environmental factors (which includes also loss of biodiversity, cases of water and soil pollutions), climate change risk is of particular relevance. Climate action failure and extreme events are now considered the most important risks.

When talking about climate change and the increase of the global temperatures, two main risks categories apply, being the Transition and the Physical risk. If global warming is going to be limited to $< 2°C$, a change in the structure of the economy (including energy, production, transportation and agricultural systems) is required. As such, **transition risk** is defined as risk arising from human action to limit global warming by transitioning to a low-carbon economy. At the same time, even an absence or proper introduction of measures to restrict the global warming would result in physical impacts of climate change. **Physical risk** is defined as risk deriving from an increase of frequency and magnitude of climate related hazards, such as floods, convective storms, droughts etc. that can lead to both damages and business interruptions.

Anyhow, both Climate Change risks pose a great challenge to the society.

Generali consider all these elements in the assessment performed to integrate sustainability risk into the investment decision-making process.

Transition risk is the risk coming from the transition toward a low carbon economy. Companies and businesses characterized by an elevated level of emissions during the activity or which sell polluting products, face the risk of having their assets becoming stranded (stranded assets), which means they lose their value prior to the end of their economic life. The coal power plants are the clearest example of this risk. Environmental regulations are increasing the cost of producing energy using coal and the public pressure reduces the demands of the electricity coming from this activity, which together can make these assets stranded, i.e. lose their value before the time. This can have an important impact on our investments and we want to manage this risk carefully.

Moreover, in order to manage the transition risk and in particular the risk of seeing the assets of the companies in our portfolio becoming stranded, in 2018 Generali adopted a Climate Change strategy (https://www.generali.com/our-responsibilities/our-commitment-to-the-environment-and-climate) which expresses the Group strategy to transition to a low-carbon future. The concrete application of this strategy to the investment activity, covers the exclusion from our investments of the companies involved in the thermal coal and tar sands business as well as the Group ambitions in terms of green and sustainable investments.

In order to limit climate change to an increase of the temperature to 1.5°, the latest finding from the Intergovernmental Panel on Climate Change (IPCC) indicate that no new coal plant needs to be started and that there should be a coal phase out in OECD countries by 2030 and in non-OECD countries by 2040. Aligned with this need to transition toward a cleaner energy mix, we are further developing our coal exclusion policy in order to reflect an ongoing reduction of the threshold for exclusion.

As the transition risk touches also other sectors than the coal and tar sand activity, we have been developing a cross-sector internal methodology to continuously reduce the transition risk of our portfolio by reducing the exposure to the most polluting companies, with a particular focus on those without a clear decarbonisation strategy. This objective to reduce the carbon footprint of our investments is also expressed in our adhesion to the Net Zero Asset Owner Alliance (NZ AOA - https://www.unepfi.org/net-zero-alliance/) - through this initiative, Generali committed to decarbonize its portfolio in order to become carbon neutral by 2050

The effort and the measures taken to reduce the level of GHG emissions is only part of the climate change effort. Even if we manage to reduce the level of emissions, we need to face the future possibility of further irreversible changes in global climate patterns. According to IPCC, human activities are estimated to already have caused approximately 1.0°C of global warming above pre-industrial levels and, at the current rate, global warming is likely to reach 1.5°C between 2030 and 2052. The impacts of this occurrence include severe impacts on ecosystems, sea level rise and increase of extreme weather events (drought, cyclones, flooding, wildfires) - so called **physical risks**.

We have launched a dedicated project to identify, measure, manage and report both transition and physical risks that our balance sheet and our investments might be facing according to different climate scenarios, and gain a better understanding of which sectors and companies are most exposed according to their business sectors and geographic positioning.

Identification & prioritization of principal adverse sustainability impacts

Misguided investment choices can have a potential adverse impact on stakeholders, environment and society. Generali recognizes this and we have adopted a clear framework to guide our investment decisions for investment whose risk is born by the insurance companies or shared with the policyholders, in order to minimize adverse impacts, as well as actively steering investee companies through our Voting and Engagement practices.

Throughout the years we formalized this commitment by adhering to several relevant initiatives, including the United Nations Global Compact (2007), Principles for Responsible Investment (2011) and Net Zero Asset Owner Alliance (2020). In 2018 we launched our Group Climate Change Strategy, outlining our actions and objectives to be aligned with the targets of the Paris Agreement.

Our framework, outlined in the Group Responsible Investment Guidelines, is founded on our commitments to make sure that our investment decisions are aligned both with the interest of our stakeholders and those of society and environment as a whole.

In addition, the Group conducts every 3 years a sustainability materiality assessment: a set of ESG factors that are potentially relevant in relation to our activities, business strategy and the context in which we work (for more information: https://www.generali.com/our-responsibilities/responsible-business/Materiality-Matrix). This assessment is conducted by using the inputs of the different businesses of the Group: as for the other business activities of the Group, the most important sustainability factors for the Investment activities are used to nourish this analysis. We looked for those systemic changes, also referred to megatrends for brevity, that over the next 10 years can bring significant risks and opportunities for the Group.

This is a key step in order to identify and prioritize the impact that Generali Group can have externally.

"Sustainability factors" are environmental, social and employee matters, respect for human rights, anti corruption and anti bribery matters. As any investment decision can have a negative impact on these factors, sustainability factors are strictly linked to the idea of "adverse impact". Principal adverse impacts are those impacts of investment decisions and advice that result in negative effects on sustainability factors.

Climate Change is of key relevance for our investments business (both in terms of impact that we have through our investment choices as well as in terms of material risk for our portfolios) as well for the Generali Group (as clearly expressed in the materiality matrix). As investor, we can influence the companies we invest in, by reducing the investments in polluting companies and providing more financing to cleaner and more environmentally friendly activity. Our impact is not only driven by the investment choices, investment and divestment, but we can also engage with companies in order to push them in order to align with the global need to reduce global warming.

In line with the sustainability factors more relevant for our investments, according to our commitments taken in the Responsible Investment Guidelines and our Materiality Matrix, we identified 3 Principal Adverse Impacts as the most relevant to present the potential negative impact on the environment and the society. They are:

- Carbon footprint of our investments
- Violations of UN Global Compact principles
- Exposure to controversial weapons

Description of the principal adverse sustainability impacts and of any actions in relation thereto taken or, were relevant, planned

Our framework, described in the previous paragraphs, allows us to identify, monitor and manage a set of principal adverse impacts, summarized below:

Carbon footprint

Through our investment choices, we can finance companies and activity that have a higher or lower level of carbon emissions (expressed in CO_2e). A transparent view of the carbon footprint of our portfolios and investments shows how well our investments are promoting a cleaner and less polluting world. In January 2020, the Generali Group entered in the Net Zero Asset Owner Alliance initiative, promoted by the UN and PRI. Via this initiative, we committed to align our investment portfolio to Net Zero carbon emissions by 2050. This reduction will be a result both of our investment decisions (e.g. divesting polluting companies) and our engagement efforts to make sure that investee companies are on a pathway towards decarbonization. Our objective, through this long-term initiative, is to minimize the climate impact of our investments and positively steer the real economy towards a more sustainable future.

Weighted Average Carbon Intensity - WACI

This is the metric for CF required by the TCFD.
The main characteristic is that it represents more the risk for the portfolio.

Formula

$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current portfolio value}_i} + \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issue'rs €M revenue}_i}\right)$$

Carbon footprint, total emissions

Required by the NZ AOA, it expresses the impact on the environment.

Formula $$\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \text{ x investee company's Scope 1, 2 carbon emissions}_i \right)$$

Carbon footprint, intensity per amount invested

Helps to make comparable portfolios of different sizes.

Formula $$\frac{\sum_n^i \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \text{ x investee company's Scope 1, 2 carbon emissions}_i \right)}{\text{current value of all investments (€M)}}$$

Exposure to companies involved in violations of UN Global Compact

According to the principles of our Responsible Investment Guidelines, we implement an Ethical Filter whose objective is to avoid investing in companies responsible of ethical violations (e.g. breach of the principles of UN Global Compact) or involved in controversial business sectors:

- companies involved in serious or systematic human rights and/or labor rights violations;
- companies involved in severe environmental damages;
- companies implicated in cases of gross corruption and bribery.

Based on an ESG assessment, companies revealing their involvement in such behaviors are either excluded from the investment universe if not meeting Group requirements, or strictly monitored and possibly engaged to further evaluate their positioning.

In cases where we had any investment exposure to this companies prior to the identification of these issues, in addition to banning any new investment, we immediately divest all equity and run off any residual fixed income exposure.

Exposure to controversial weapons

Σύμφωνα με τις αρχές του Ηθικού μας Φίλτρου, δεν επενδύουμε σε εταιρείες που χρησιμοποιούν, αναπτύσσουν, παράγουν, αποκτούν, δημιουργούν αποθέματα ή εμπορεύονται αμφιλεγόμενα όπλα (βόμβες διασποράς, νάρκες ξηράς κατά προσωπικού, πυρηνικά όπλα, βιολογικά και χημικά όπλα), ή βασικά στοιχεία/ υπηρεσίες των όπλων αυτών.

Brief summary of engagement policies

The Group's objective is to leverage its role as an institutional investor to foster change through investment. The Group uses **dialogue to encourage issuer companies to act responsibly**, asking them to justify their conduct if it does not meet the sustainability standards set by the Group.

For the wider purpose of steering the role of the Group as an active owner, we defined a comprehensive Group Active Ownership Framework, regulated by a Group Guideline document. **The Active Ownership Group Guideline** defines the principles, main activities, and responsibilities leading the role of the Group as an active owner. In this role the Group, as a long-term liability-driven institutional investor and assets owner, has a fiduciary duty towards its stakeholders and takes action accordingly by (i) monitoring investee issuer companies, (ii) engaging them on financial and non-financial topics including ESG issues, and (iii) voting at general meetings for the dissemination of best practices in terms of governance, professional ethics, social cohesion, environmental protection, and digitalization.

The Active Ownership Group Guideline (https://www.generali.com/our-responsibilities/responsible-investments) has been drawn up in compliance with the obligations introduced by the Shareholder Rights Directive II as regards the engagement policy of institutional investors (Art. 3g of Directive (EU) 2017/828 amending Directive 2007/36/EC) and duly takes into account best practices from international standards to which the Group adheres.