



Assicurazioni Generali S.p.A.

**MANAGEMENT OF
SUSTAINABILITY RISKS AND
PRINCIPAL ADVERSE IMPACTS
ON INVESTMENTS**

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Introduction

According to the Regulation (EU) 2019/2088 (“Sustainable Finance Disclosure Regulation” or “SFDR”), Assicurazioni Generali S.p.A. publishes this disclosure including:

- information about the policies on the integration of sustainability risks in the investment decision-making process;
- the statement on due diligence policies regarding Principal Adverse Impacts of investment decisions on sustainability factors.

Assicurazioni Generali S.p.A., is the ultimate Italian parent undertaking of the Generali Group. Belonging to the Generali Group entails also being involved in the several initiatives signed by the Group and committed to the common goals to pursue sustainable success, including all the insurance and reinsurance activities.

In particular, investments are a key aspect of how the Group conducts business. They have a significant impact on the real economy, therefore an active integration of aspects such as environmental protection and respect into investment decisions is needed.

As asset owner, Generali Group proactively integrates sustainability factors¹ into the investment process for insurance portfolios, across asset classes, thus achieving both financial returns and social more in general, shared value; through engagement and voting activities, the Group seeks to have an influence on issuers' behaviours.

Generali Group is signatory of the United Nations Global Compact (2007), Principles for Responsible Investments (2011), Paris Agreement (2015), TCFD (2017), Net Zero Asset Owner Alliance (2020), Net Zero Insurance Alliance² (2022). In line with these initiatives, for a number of years now it has been including in investment strategies also sustainability factors, without sacrificing profitability. This set-up allows the Group to have a positive impact on its stakeholders, reduce the risk for its investments and protect its reputation together with the value created over the time, consistent with its fiduciary duty.

Generali Group formalized its commitment to responsible investment by adopting in 2010 its own Responsible Investment Group Guideline (<https://www.generali.com/our-responsibilities/responsible-investments>) and by setting up the Group Responsible Investment Committee in 2015, with the objective of steering the management framework for integrating the sustainability factors in the investment decision making process.

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

Moreover, Generali' Board of Directors adopted all the recommendations of the 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 influences the ordinary course of investment business - also through the definition of sustainable targets and KPIs - and is cascaded in the whole Generali Group organization.

¹ Sustainability factors refer to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

² Initiative concerning insurance and reinsurance underwriting portfolios.

1 How Generali integrated the sustainability risk into its investment process

A sustainability risk means an environmental, social or governance event or condition that, if occurs, can cause an actual or a potential material negative impact on the value of the investment. The identification of sustainability risks that can have a material impact on the value of our investments is a duty toward the Group stakeholders and investors.

Generali Group formalized its commitment to responsible investment in the Investment Governance Group Policy³ and in the Responsible Investment Guideline that include also the sustainability risks management.

The Group has defined a sustainable investment framework and adopts guidelines in order to:

- take into account sustainability risk deriving from the investment strategy and decisions;
- manage the potential long-term impact on sustainability factors deriving from its investment strategy.

The sustainable investment framework⁴ is composed of four pillars aiming at:

- excluding from investments issuers, sectors or activities due to issue related to environmental social or governance factors not aligned to minimum standards of business best practice or based on international norms⁵;
- integrating in the investment analysis and decisions, across different asset classes, the assessment of the long-term impacts on sustainability factors;
- developing sustainable thematic investments programs promoting specific environmental or social objectives;
- carrying out investment stewardship on investee companies (through voting at Annual General Meetings and/or engaging) to promote sound practices in considering sustainability factors and risk in their long term plan and business practices.

Moreover, Assicurazioni Generali updated the Framework Resolution on Investments pursuant to Article 8 of IVASS Reg. 24/2016 integrating sustainability risks identification and management in the investment's activities at legal entity level.

1.1 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 include also loss of biodiversity, cases of water and soil pollution), climate change risk is of particular relevance. Within climate change risk, climate action failure and extreme events are now considered the most important risks by the international community.

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 a combination of socio-economic variables, including the development of regulations, of new technologies and of consumer preferences. 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 a combination of physical variables, including increased frequency of extreme climate events such as floods, heat waves, storms, wildfires, droughts and of chronic climate events such as sea level rise that can lead to both damages and business interruptions.

Anyhow, both Climate Change risks pose a great challenge to the society given its nature, as emphasized by the IPCC, as a complex outcome of the interaction between the vulnerability (how susceptible a human or natural system is to adverse impacts of climate change), the exposure (presence of people, ecosystems, services, infrastructure, socio-economic and cultural activities, which may be exposed to adverse impacts of climate change) of the land to climate impacts, and the hazards caused by climate and climate change (extreme events and climate trends).

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

³ Updated following the new requirements of the EU Del. Reg. 2021/1256.

⁴ According to the PRI taxonomy that the Group adopts being a PRI signatory since 2011.

⁵ E.g. UN treaties, Security Council sanctions, UN Global Compact, Universal Declaration of Human Rights and OECD guidelines.

As anticipated, 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. Due to growing efforts and commitments to phase out coal worldwide, environmental regulations are increasing and influencing the cost of producing energy using coal and the public pressure reduces the demands of the electricity coming from this activity. This inevitably leads to market instability to be taken into account. Despite the increasing trend of fossil fuel prices linked to geopolitical instability and the war in Ukraine, in the long term it is estimated that environmental regulations will contribute to the devaluation of these particularly polluting assets, i.e. reduce their value before the time. This can have an important impact on in our investments and we want to manage this risk carefully.

In order to manage the transition risk and in particular the risk of seeing the assets of the companies in our portfolio reduced, from 2018 Generali adopted a Climate Change strategy (<https://www.generali.com/our-responsibilities/our-commitment-to-the-environment-and-climate>) that has the aim to ensure that the main activities of the Group, i.e. the investment and underwriting activities, as well as the operational activities, are conducted in order to manage the risks and seizing the opportunities deriving from the 'just' transition towards a low-carbon economy, integrating the social dimension into the climate strategy to minimize the impact on affected workers and their communities through the adoption of protective measures.

The concrete application of this Strategy for the investment activities as an asset owner focuses on three main elements: i) increasing the weight of sustainable thematic investments (green and sustainable asset); ii) reducing exposure to carbon-intensive issuers (exclusion criteria); iii) methodically measuring and reducing its own carbon footprint (portfolio decarbonization) in line with the protocols developed by the Net-Zero Asset Owner Alliance ([UN-convened Net-Zero Asset Owner Alliance – United Nations Environment – Finance Initiative \(unepfi.org\)](https://www.unepfi.org/)).

For what concern the objective of increasing the weight of sustainable thematic investments, the Group has set a target to make new green and sustainable investments of € 8.5 - € 9.5 billion by 2025, in addition to those already in its portfolio at the end of 2020.

For what concerns the objective of reducing exposure to carbon-intensive issuers, the Group is committed to the phase-out of investments in the coal sector by 2030 for OECD countries and by 2040 for the rest of the world. To this end, starting from June 2021, Generali introduced stricter exclusion thresholds for coal-related issuers.

Moreover, Generali is committed to progressively reducing its exposure to the unconventional oil and gas sector with respect to exploration and production activities (i.e. the upstream segment) in addition to some specific midstream activities, to support the goal of reaching a carbon-neutral investment portfolio by 2050. Effective 1 January 2023, Generali is extending the exclusion policy both to issuers involved in exploration and production of oil and gas extracted by fracking (shale oil, shale gas, tight oil, tight gas) and to issuers with onshore and offshore exploration and production activities that fall within the Arctic Circle.

The effort and the measures taken to reduce the level of GHG emissions is only part of the climate change effort. Even if the Group manages to reduce the level of emissions, it needs 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, floods, wildfires) – so called physical risks.

In line with the increasing European regulatory developments and due to the growing expectancy from the market, the Group Risk Management function launched in 2019 the multiyear Climate Change Risk project, with the aim of defining a climate risk management framework that considers jointly: incurred or outside-in risk, related to the impacts of climate change on the Group, in particular on the value of the investments and on the profitability of services and products provided, and generated or inside-out risk, related to the impacts that the Group generates through its operating activities and, indirectly, through investments and services and products provided.

The risk management framework is structured in four phases, as defined in the Risk Management Group Policy: identification, measurement, management and reporting.

In 2021, the Group consolidated the risk identification and measurement phases, and launched the definition of the risk management model.

In the risk identification phase, two activities were carried out: climate scenarios' selection, and materiality analysis on risk exposures.

The Group selected three scenarios mainly based on the Representative Concentration Pathways (RCPs) developed by the Intergovernmental Panel on Climate Change (IPCC) and on the World Energy Outlook Scenarios developed by the International Energy Agency (IEA), respectively for physical and transition risk. Each scenario is identified by the global warming level assumed

in 2100 compared to pre-industrial levels. In particular, temperature pathways taken into account were 1.5°C, 3-4°C and >4°C.

Further, to capture the most significant expected impacts, for transition risk the Group focused on short and medium-term time horizons, while for physical risk we also considered longer time horizons. In particular, time horizons taken into account for all scenarios were 2025, 2030, 2050.

The analysis focused on the investment portfolio (general account), including equity and corporate bonds, government bonds and real estate and the non-life underwriting portfolio.

The Group measures physical and transition risk using models that allow to determine the impacts of climate scenarios on the exposures identified based on the climate stress tests. The results obtained provide forward-looking indications of climate change effects on Group's portfolios.

Climate risk, considering both incurred risk and generated risk, is progressively being integrated in decision-making processes through the definition of a specific appetite, including tolerances, limits, and escalation processes in case of breaches.

For more results please review the section "Challenges and Opportunities of the Market Context" included in the [Annual Integrated Report and Consolidated Financial Statements 2021](#).

2 Identification and prioritization of principal adverse sustainability impacts

As a global institutional investor, the Generali Group considers investment management activity a fundamental cornerstone of its business, being aware that this activity has a significant impact on the real economy, which allows to have an effective influence in areas such as good governance practices of our investee companies, environmental protection, respect for human rights and labor rights.

In this regard, Generali recognizes this and adopted a clear framework to guide its investment decisions for investment whose risk is born by the insurance companies or shared with the policyholders, in order to minimize or avoid principal adverse impacts, as well as actively steering investee companies through our Voting and Engagement practices.

Throughout the years the Group 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), Net Zero Insurance Alliance (2022). In 2018 the Group launched its Group Climate Change Strategy, updated in June 2022, outlining its actions and objectives to be aligned with the targets of the Paris Agreement⁶.

The framework, outlined in the Group Responsible Investment Guidelines, is founded on the commitments to make sure that the Group investment decisions are aligned both with the interest of its 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 its works (for more information: <https://www.generali.com/our-responsibilities/responsible-business/materiality-analysis>). 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.

Climate Change is of key relevance for the Group 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 as for the Generali Group (as clearly expressed in the materiality matrix). As investor, the Group can influence the companies it invest in, by reducing the investments in polluting companies and providing more financing to cleaner and more environmentally friendly activity. The Group impact is not only driven by the investment choices, investment and divestment, but it 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 the commitments taken in the Responsible Investment Guidelines and the Materiality Matrix, the Group identified 3 Principal Adverse Impacts (PAI) as the most relevant to present the potential negative impact on the environment and the society. They are:

- Carbon footprint of Group investments (PAI n. 2⁷);
- Violations of UN Global Compact principles (PAI n. 10⁷);
- Exposure to controversial weapons (PAI n. 14⁷).

2.1 DESCRIPTION OF THE PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS AND OF ANY ACTIONS IN RELATION THERETO TAKEN OR, WERE RELEVANT, PLANNED

The Group framework, described in the previous paragraphs, allows to identify, monitor and manage a set of principal adverse impacts, summarized below.

Carbon footprint

In January 2020, the Group joined the United Nations-convened Net-Zero Asset Owner Alliance, a group of 70 institutional investors, representing over \$ 10.4 trillion, committed to decarbonize their portfolios to net-zero emissions by 2050 to avoid a global temperature increase above the 1.5°C Paris target.

⁶ For metrics, targets and results as of 2021 please refer to the document "Climate-Related Financial Disclosure 2021" (<https://www.generali.com/our-responsibilities/our-commitment-to-the-environment-and-climate>).

⁷ According to the Annex of the Regulatory Technical Standards SFDR.

This result will be pursued by working closely with issuers in the portfolio, regulatory and government bodies in order to urge the adoption of practices and regulations in line with the commitments of the Paris Agreement, also integrating the strategy with targeted investment actions, in compliance with the commitment aimed at ensuring that investee companies are on the road to decarbonisation.

In addition, as a member of the Net-Zero Asset Owner Alliance, Generali is committed to gradually decarbonizing its investment portfolio in order to reach carbon neutrality by 2050.

Generali has therefore set specific intermediate targets by 2024 with respect to the 2019 baseline, detailed as follows:

- 25% reduction of the carbon footprint of the direct investment portfolio for listed equities and corporate bonds;
- alignment of at least 30% of the real estate portfolio value with the global warming trajectory of 1.5 °C.

Exposure to companies involved in violations of UN Global Compact

According to the principles of our Responsible Investment Guidelines, the Group implements 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 labour 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 behaviours 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 the Group had any investment exposure to this companies prior to the identification of these issues, in addition to banning any new investment, it divests all equity and run off any residual fixed income exposure.

Exposure to controversial weapons

According to the principles of our Ethical Filter, the Group does not invest in companies that use, develop, produce, acquire, stockpile or trade controversial weapons (cluster bombs, antipersonnel landmines, nuclear weapons, biological and chemical weapons), or key components/services of such weapons.

Group Risk Management provides support to the methodology for the Restricted list definition (Ethical filter), as well as an independent opinion to the list itself.

2.2 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, the Group 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 and iv) exercising the other rights attached to the securities (including the power to initiate a legal action), for the dissemination of best practices in terms of governance, professional ethics, social cohesion, environmental protection, digitalization and systemic risks scenarios.

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.