

# Responsible Investment

## Your questions answered

As a global organisation, Zurich Insurance Group (the Group) is committed to investing responsibly and is a signatory to the United Nations Principles for Responsible Investment (PRI). As an investment manager, Zurich Life in Ireland is conscious of the need to ensure that we invest policyholder and shareholder funds responsibly. For the Group, responsible investment is grounded in an economic approach and is all about 'doing well and doing good'.



### What is Responsible Investment?

Responsible Investment means different things to different people. For Zurich Insurance Group (the Group), Responsible Investment is all about "doing well and doing good".

Within the Responsible Investment spectrum, five main schools of thought have developed:

1. Ethical screening – systematic rules-based exclusion of certain investments from the portfolio based on specific activities (e.g. alcohol & tobacco; animal testing), ratings or scores, or other criteria.
2. Best-in-class – systematic overweighting of companies with high Environmental, Social and Governance (ESG) ratings while keeping the weight of exposure to different industrial sectors within the portfolio unchanged. A commonly used method to construct ESG indices.
3. ESG integration (or 'integrated financial analysis') – systematic use of ESG data in active portfolio management with the objective to reduce risk and identify securities or assets that may be over or undervalued.
4. Themed investment strategy – actively managed funds seeking to capitalise on specific opportunities based on social or environmental issues (e.g. cleantech funds; water funds; finance funds).
5. Impact investing – themed investment strategies focusing on investments that

allow for the measurement of social or environmental impacts. Strategies can target either fully commercial returns or deliberately accept lower returns for higher impact.

Of these approaches the Group practices ESG Integration and impact investing. Included in ESG integration is the concept of Active Ownership – active engagement with investee companies and voting across the holdings of actively managed equities.

### Why does the Group want to be a responsible investor?

In conducting its business, the Group seeks to create "sustainable value", defined in our code of conduct as one of our basic values:

- "Environmental protection is integral to sustainable value creation for Zurich and society."
- "We maintain a high standard of corporate responsibility by proactively addressing environmental, social and governance issues."
- "We focus on long-term success over short-term gains."

Responsible Investment is our way to create that sustainable value, and do both well and good. With over USD 200 billion in own assets under management, The Group's investment strategy and decisions can have an impact on society and the environment. We recognise the responsibility that comes with being a steward of such a large portfolio of assets. As a result, the Group has a clear strategy for Responsible Investment.

### **What does “doing well and doing good” really mean?**

‘Doing good’ means that through our investments we can have a positive impact on society and the environment. We see that positive impact as non-financial value – value that cannot be directly translated in dollars and cents, such as ‘tons of greenhouse gas emissions avoided’. This value will benefit the Group’s stakeholders more broadly.

‘Doing well’ means generating superior risk-adjusted investment returns. It recognises that Responsible Investment is not about philanthropy. It also acknowledges that being a responsible investor – for instance through integrating ESG factors or taking long-term views – can also create financial value, i.e. better investment returns.

### **How does the Group practise Responsible Investment?**

The Group’s Responsible Investment approach consists of three elements:

1. ESG integration
2. Impact investing
3. Advancing together

Responsible Investment is part of the Group’s investment philosophy and Responsible Investment practices are an integral part of the Group’s investment approach.

We embed Responsible Investment practices throughout the Zurich organisation and in to our culture through:

- Dedicated Responsible Investment objectives are formulated for all members of the Investment Management team and evaluated annually as part of the Group’s performance management process.
- Responsible Investment ‘competencies’ have been defined and are used to describe required skills in job profiles used for recruiting and development purposes for all investment professionals.
- Mandatory Responsible Investment training is provided to all members of the Group’s Investment Management team. Additional advanced training is provided to portfolio managers and analysts within portfolio management teams.
- All teams nominate a ‘Responsible Investment Champion’ tasked with supporting the team in embedding Responsible Investment practices. The network of over 25 Responsible Investment champions holds monthly calls to exchange best practices and discuss progress.

There is only one way in which we manage our assets: as a responsible investor. Responsible Investment is part of our DNA.

### **What is ESG integration?**

ESG integration is an approach in which information on environmental, social and governance performance is used systematically as an integral part of the process to select securities or assets for actively managed portfolios. ESG integration is an approach that is focused on those ESG factors that are deemed economically

material, i.e. deemed to impact the risk and returns associated with the assets in which we invest. ESG factors impact the bottom line: integrating them into the investment process will support us in delivering better risk-adjusted returns in the long run. ESG integration helps us to ‘do well’.

### **How does ESG integration work?**

The Group believes that successful ESG integration is based on four core requirements:

1. Training: the investment implications of ESG factors can be very complex and traditionally finance education does not prepare finance professionals to identify and evaluate material ESG factors.
2. Information: access to relevant ESG data, analysis and research is necessary for well informed decision making.
3. Process: In the absence of standard tools and methods ESG needs to be reflected formally in the investment process to ensure ESG factors are reflected in investment decisions.
4. Active Ownership: Through the execution of proxy votes and engagement with investee companies investors can maximise investment value after the investment decision while addressing material ESG factors.

### **Where does the Group get its ESG data and how can portfolio managers access it?**

The Group sources ESG data and analysis from Morgan Stanley Capital International (MSCI), a third-party specialist data vendor. All of the Group’s portfolio managers as well as analysts in portfolio management teams have access to ESG data and analysis on MSCI’s ‘ESG Manager’ online platform. In addition, the Group feeds ESG ratings into its Global Investment Data Warehouse through which ESG reports can be generated for all securities portfolios in-scope for ESG integration.

### **What is the PRI?**

The United Nations-supported Principles for Responsible Investment (PRI) initiative is an international network of asset owners, asset managers and investment service providers originally convened by the United Nations Environmental Program Finance Initiative and the UN Global Compact. Over 1,300 organisations representing close to USD 60 trillion in assets are signatories to the initiative.

Signatories commit to make steady progress towards implementing a set of six principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

More details can be found at [www.unpri.org](http://www.unpri.org).

#### **Why did the Group decide to become a signatory of the PRI?**

The Group has formulated a clear strategy for Responsible Investment since 2012. Becoming a signatory of the PRI formed part of that process, and was the result of a thorough evaluation process. The Group believes that the six principles are well aligned with its strategy for Responsible Investment. The PRI is the foremost organisation to bring together market participants around the topic of Responsible Investment and provides a platform for best practices sharing and a network of like-minded market participants.

#### **When did Zurich become a signatory of the PRI?**

Zurich Group signed the Principles for Responsible Investment in 2012.

#### **What has the Group committed to as a signatory of the PRI?**

All signatories commit to make steady progress in implementing the principles relevant in the context of their operations and investment approach. Signatories commit to report on progress made annually through

standardised transparency reports. The Group's report can be found at [unpri.org/signatory-directory/zurich-insurance-group/1981.article](http://unpri.org/signatory-directory/zurich-insurance-group/1981.article)

#### **What is Zurich in Ireland doing in the area of Responsible Investment?**

Zurich in Ireland is fully committed to the adoption and integration of Responsible Investment into how we manage monies for our customers. We have had a Responsible Investment framework in place for a number of years, and we maintain a key focus in this area. Representatives from Zurich sit on a number of strategy groups across the industry, including the Irish Association of Investment Managers.

We are committed to broadening the base of people who understand what Responsible Investment is, its importance and what it can achieve.

#### **Why does Zurich in Ireland want to be a responsible investor?**

As an active investment manager we are always refining and enhancing our process. The integration of ESG factors into our investment process can help deliver additional insights which in turn can improve our assessment of investment risks and rewards. Our aim is to have both positive financial and non-financial benefits for all stakeholders by applying sound principles and integrating them in a practical way into our process.

**For more information on Responsible Investment with Zurich please do not hesitate to get in touch or log on to [zurich.ie/responsibleinvestment](http://zurich.ie/responsibleinvestment)**