Insurance-Linked Securities

Responsible Investing through ESG Integration

Basis

Our thinking and action at Plenum Investments AG is determined by recognized principles of responsible investment. Our Sustainability Guidelines verbalize the high demands we place on ourselves and provide insight into our values and beliefs from which we develop our ambitions and the nature of our commitment. The Sustainability Guidelines are an integral part of our corporate strategy.

Sustainable behavior must be credible and verifiable. It involves proactiveness, persuasion, mobilizing, and providing impetus as much as professional implementation.

Vision

We strongly believe that the capital market, in the long term, will become a major and responsible insurance risk carrier. In a nutshell, our vision is: Capital Goes Re.

This leads to our mission to allow investors direct access to (re)insurance risks. We see ourselves as an insurance-linked securities manager that handles extreme risks competently. We do our part to promote the role of the capital market in the (re)insurance industry.

Credo

It is our firm belief that sustainability is the basis of responsible corporate behavior to align long-term economic success with environment and society. We strive to be a responsible service provider, a fair partner, and an active part of society. We are willing to do our part to shape our industry for a sustainable tomorrow.

To enhance our credibility as an ESG risk conscious asset manager in the field of alternative transfer of insurance risks, we have decided to develop our own approach to further analyzing the assumed insurance risk in terms of ESG.

Guiding Principles

In our investing and ESG integration we are guided by the following motives:

- Our thinking is holistic and integrated and incorporates social and ecological spheres of activity.
- We ensure that ecological, social and governance aspects are respected.
- We communicate progress and challenges in a transparent and credible manner.
- We work to ensure that the insurance industry meets the requirements of more transparency in its core business.
- We promote the adoption and diffusion of ESG principles in the investment and insurance industries.
- We make sure that our investment products and services provide an optimum balance of performance and useful effects.
- Our analysis methods and investment decisions include ESG and exclusion criteria.
- We are accountable for our activities and progress in implementing these principles.

Implementation of EGS Integration

Conventional ESG analysis typically disregards the core business of financial service providers which, at times, takes place on the liabilities side of the balance sheet. The origins of funds in demand deposits, bank lending and insurance practices, etc. are often overlooked. To implement the sustainability concept in the analysis, it is mandatory to focus on the insurance contract and the type of assumed risk. This poses a challenge to both the CAT bond investor and the sponsor, as very often the required level of transparency is not necessarily provided.

General Perception of the Insurance Industry

The business model of the insurance industry is designed is such a way that an insurance company covers losses in case of an event and funds the reconstruction and, in return, is paid a premium by the policyholders. The price of this insurance cover depends on the loss amount and the probability of occurrence of the event. Due to the large number of insureds, the individual policyholder pays only a small portion of the total cost of a possible loss event (principle of solidarity).

The insurance industry promotes individual responsibility, as insufficient prevention and a lack of prudence in dealing with risks leads to increased insurance premiums. To avoid the additional expense in terms of higher premiums, policyholders will adjust their behavior to prevent the loss.

Scientific research conducted by insurance companies shows cause-effect relationships which trigger the risk. These findings help identify and avoid risks.

What happens if reconstruction does not take place due to a lack of coverage and financial assistance or is significantly delayed? Affected societies are exposed to high stress if the damage caused by natural disasters is not repaired in a timely manner. Providing capital for rebuilding the infrastructure is a key function of the insurance industry and means assuming a high level of social responsibility.

The Difference Between Traditional Insurance Business and Alternative Transfer of Insurance Risks

The issuing special purpose vehicle (SVP) of the CAT bond receives funds from the investors in the amount of the maximum liability under the insurance contract and deposits them into a trust account as collateral for the assumed risk. To avoid underfunding of the maximum liabilities under the insurance contract during the term of the bond, the issue proceeds are typically invested in safe short-term securities.

The premiums received from the sponsor are either paid to the investors as coupons or transferred to the trust account (zero-coupon structure).

Policyholder and Recipient of Benefits

In case the recipient of the insurance benefit is a private individual, it can be safely assumed that the transaction is ESG neutral. In this client segment the generally accepted exclusion criteria can always be regarded as met.

In corporate insurance, however, it cannot be ruled out that buildings and factories are used for business activities at odds with ESG criteria.

Investment Philosophy

Our investment philosophy in terms of sustainability aims at finding a balance between a risk-return optimized portfolio construction and the implementation of sustainability. To this end, the portfolio manager, while considering the current state of the CAT bond market with regard to transparency, verifies whether the underlying insured risk and the level of transparency provided comply with the desired requirements. This is a dynamic process adjusted according to the progress in the disclosure of information by CAT bond sponsors.

Investment Policies and Objective

Our investment policies in terms of sustainability vary for each individual investment portfolio and are based on ESG exclusion criteria and the UN Global Compact principles. The investment objective is defined as the minimum standard.

Our investment objective in terms of sustainability is to reduce the share of insured assets potentially at odds with ESG criteria to less than 5% of the total portfolio value by an appropriate method.

Exclusion Criteria

There are two types of exclusion criteria applied in portfolio management. Generally accepted ESG exclusion criteria, referred to as minimum or basic criteria, include, inter alia, the UN Global Compact principles. Other criteria relate to the assumption of operational risks in the financial sector (so-called Operational Risk CAT Bonds), credit risks and gambling.

Selection, Assessment and Allocation Processes

The applicable process first analyzes the insurance book of business underlying the transferred risk. Depending on the level of transparency provided, the analysis can be extended to the sponsor. Non-ESG compliant investments will be excluded, provided that the amount and quality of the information made available permit such a conclusion.

The assessment process to create transparency is cascading and uses basic assumptions for approximation with the aim of revealing non-transparent aspects. With increased transparency, there is less need to revert to basic assumptions or derivations.