

Engagement

Engagement Policy

Conviction and Pioneering Spirit to Make a Difference

Motivation for Engagement

Sustainability is an integral part of the overall strategy of Plenum Investments Ltd. We are convinced that the integration of environmental, social and governance (ESG) factors leads to sound investment decisions.

For us, engagement means actively influencing sponsors and other players in the CAT bond market to put increased emphasis on ESG aspects.

The incorporation of ESG criteria in the collateralized reinsurance market and the underwriting of the insurers results in greater transparency of the insured values. We want to play our part in promoting sustainability in the reinsurance business and in creating starting points for a social development approach beyond the Sustainable Development Goals (SDGs).

The Conventional ESG Approach Fails in Risk Coverage

Investments in property insurance risks differ from traditional investments such as stocks or corporate bonds in that the investment risk involved does not increase when ESG criteria are disregarded. The focus is on the insurance event which is assessed based on its probability of occurrence and loss amount. These two factors are not affected by a decision to insure a controversial industry. Therefore, the so-called asset owner's approach and conventional ESG analysis methods fall short. New analysis approaches are imperative to be able to depict the insurance business in itself from an ESG perspective.

Increasing ESG Requirements of the Capital Market

Since the cover capacities in the ILS industry are provided by the capital market which more and more considers and incorporates ESG-related factors, the ILS industry is faced with new challenges, involving a shift towards sustainability and greater transparency.

An ESG-oriented underwriting offers significant potential to advance the ILS market into a relevant and responsible reinsurance risk carrier.

Engagement Objectives

We strive to minimize the insurance of controversial sectors in this asset class by encouraging the parties to the alternative risk transfer to consciously reflect on their role and potential contribution to sustainability.

Moreover, we wish to anchor the "insurance-linked securities" asset class in the ESG world, since it is not enough to only recognize that climate change and the assumption of natural disaster risks are closely related. Rather, the asset class must become analyzable in an orderly, comprehensible and plausible manner to create a certain degree of formality and measurability.

To enshrine ESG criteria in the "insurance-linked securities" asset class, it is necessary to raise awareness among insurance companies (sponsors), structuring agents, insurance brokers and other parties involved that transparency in the underwriting and the insurance book of business is imperative. The same applies to shareholders of insurance companies and members of insurance co-ops, as the core business of insurance happens on the liability side of the insurance balance sheet.

Understanding of Engagement

Engagement invariably requires an understanding of the exponents, i. e. their market in itself, the market conditions, their cultural, financial and legal environment and embeddedness in the industry. These factors determine the extent of engagement, since making unrealistic demands will only elicit incomprehension and impede a cooperative process. The primary engagement objectives are to promote understanding of the concern and to raise the exponents' awareness, which is a dynamic two-way process, evolving over time.

We are looking for focused cooperations which we believe recognize the meaningfulness of a dialogue on engagement. This approach also fosters an efficient use of resources. We then pursue an engagement based on partnership to create added value for both sides and achieve the best possible engagement result. We rely on constructive collaboration in which we play an active role and support it with public relations work. In certain circumstances, we also involve other stakeholders in our engagement. We participate in consultations and give feedback. Our engagement, however, never aims to unduly influence the political process.

We try to raise the awareness of sustainability within the asset class in a constructive way, since we are convinced that the capital market is developing into a relevant and responsible carrier of reinsurance risks in the field of natural disasters.

Engagement Measures

We strongly believe that engaging in constructive dialogue is more effective than sanctions. Insight is the key here. Exclusions may occur in accordance with our ESG investment policy. In case an increased engagement does not have the desired result, an escalation may be initiated. The investors are to be consulted on this and the extent of the escalation should be in line with the influence potential of Plenum Investments Ltd. This means that investors can exert influence collectively. Moreover, other stakeholders affiliated with the wider network can be encouraged to take action in this sense as well.

All our engagement measures are based on the "voice" application concept, as investments in CAT bonds do not allow the option to exert influence by exercising shareholder voting rights ("vote").

The "voice" application concept includes constructive dialogue with the exponents which can take place individually or in public.

The extent of engagement is determined case by case for each engagement measure, depending on its chances of success. We take a focused engagement approach and concentrate our engagement efforts on the most critical ESG factors and topics as well as on a selected group of exponents.

Forms of Engagement

Our engagement manifests itself in three forms: individual, topic-related and/or collective engagement.

Individual engagement includes measures which are implemented in direct dialogue with the companies involved (i. e. sending "exclusion letters").

Topic-related engagement emerges as required and relates to specific questions (SDG contribution of the CAT bond market, increased transparency in the insurance book of business, refining the analysis methodology, etc.). This form of engagement is not addressed to a specific counterparty, but to the industry in itself and, therefore, requires the use of appropriate communication tools such as media, professional associations, trade press, etc.

Collective engagement takes place in the form of initiatives and membership of investor groups or associations to exert more influence with regard to the consideration of ESG aspects. We try to participate in association work actively and with purpose.

In general, we conduct these engagement activities ourselves. However, collective engagement or outsourcing to an external engagement service provider may be considered.

Engagement Process and Escalation

If an exponent does not respond to an enquiry, the question arises whether this is an isolated case or an industry problem which is usually structural in nature. Appropriate action is required and includes the following measures which can be taken in varying order:

- Contact division heads
- Contact the management board
- Contact industry associations
- Attract media attention for the issue to be resolved in case it is an industry or structural problem
- Interact with investors of the exponent(s) and/or simultaneous engagement activity together with other investors
- Make investment decisions (no investment or no increase in existing investments, partial sale or divestment)

The escalation levels mentioned have to be individually tailored to the exponent and the industry in itself. Engagements usually start by contacting specialized units or division heads by

email (in case of specific enquiries for example by sending "exclusion letters"), mail or telephone, followed by conference calls and meetings with technical experts.

Engagement activities which fail to achieve their specific target or to keep the time frame for achieving the target do not necessarily result in "public shaming" or divestment. Whether these last-resort measures are applied depends on the sustainability impact and the relevance for the Company.

Our engagement activities are documented and internally reviewed for success once a year. We also scrutinize the quality of our engagement process and improve it as required. For this purpose, we weigh the probability of a desired behavioural change within a predefined time frame against the effort required and evaluate the result.

As a matter of principle, our engagement efforts depend on market position, potential influence and size and scope of the business operation.

Our clients receive detailed information on our engagement in the form of an engagement report which is usually prepared once a year. Information gathered in the engagement process are generally treated as confidential. Updates on engagement progress, new engagement topics and specific trends are published on our website.

Disclaimer: This publication has been prepared for information purposes only. It reflects the opinion and approach of Plenum Investments Ltd. and aims to promote a better understanding of how to actively influence sponsors and other players in the CAT bond market. The information contained herein can change at any time, without prior notice.