March 2020

Operating Principles for Impact Management

Disclosure Statement

Zurich Insurance Group ('Zurich') is a founding signatory to the Operating Principles for Impact Management (the Principles). The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. Zurich's definition of impact investing is aligned with the common market understanding, which generally is understood as stating that impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.'*

This disclosure statement affirms that Zurich's impact investment approach, including Zurich's (a) impact objectives – mitigating environmental risks and increasing resilience; (b) investment approach; and (c) impact measurement framework – is managed in alignment with the Principles.

All investments declared and reported as 'impact investments' are selected and managed based on this approach.

As of Dezember 2019, Zurich's impact investing portfolio comprised USD 4.6 billion. Visit our webpage for the most up-do-date impact investment data and Key Perfomance Indicators.

*Adapted from the Global Impact Investing Network (GIIN) (2019).

Contents

The Principles

Investing for Impact: The **Operating Principles for Impact Management** define an end-to-end process. The elements of the process are: strategy, origination and structuring, portfolio management, exit, and independent verification.

Within each of these five main elements, the Principles have been defined by a heading, supplemented by a short descriptive text. In total, the nine principles (see Figure 1 below) that fall under these five main elements are considered the key building blocks for a robust impact management system. The Principles have been formulated based on two fundamental concepts: (1) core elements of a robust impact management system; and (2) transparency of signatories' alignment with the Principles.

In the following statement, the term 'investment' includes, but is not limited to, equity, debt, credit enhancements, and guarantees. The general term 'Manager' is used to refer to the asset manager, fund general partner, or institution responsible for managing investments for impact. The term 'each investment' may also refer to a program of investments. 'Investee' refers to the recipient of the funds from the Manager. For example, the recipient may be a company or organization, fund, or other financial intermediary.

Figure 1: Investing for Impact: Operating Principles for Impact Management

Strategic Intent	Origination & Structuring	Portfolio Management	Impact at Exit
1. Define strategic impact objective(s) consistent with the investment strategy. 2. Manage strategic impact level on a portfolio basis.	3. Establish the Manager's contribution to the achievement of impact 4. Assess the expected impact of each investment, based on a systematic approach. 5. Assess, address, monitor, and manage the potential risks of negative effects of each investment.	6. Monitor the progress of each investment in achieving impact against expectations and respond appropriately.	7. Conduct exits, considering the effect on sustained impact. 8. Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

Independent Verification

9. Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

Source: Impact Principles.

Principle 1:

Define strategic impact objective(s), consistent with the investment strategy

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the sustainable development goals (SDGs), or other widely accepted goals. The 'impact intent' does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives[1] and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

[1] Impact objectives can be defined as the intended impact that contributes to financial, institutional, social,environmental, or other benefits to a society, community, or group of people via one or more investment. Adopted from OECD-DAC (www.oecd.org/dac/).

Zurich's responsible investment strategy comprises three elements, namely ESG integration, impact investing and 'advancing together.'

At Zurich, we define impact investing as investing in opportunities that allow us to intentionally target a specific positive social or environmental impact as well as to measure the impact achieved. These investments aim to generate a profit, meaning that they generate a financial return commensurate with the risk.

Zurich evaluates impact investments within the context of specific asset classes and creates dedicated strategies for impact investments within those asset classes. While continuing to make systematic use of environmental, social and governance (ESG) data in investment decision-making, we also look at a variety of ways to grow our impact investment portfolios around the world. We will focus on the following asset classes:

- Fixed income: use-of-proceed bonds encompassing green, social and sustainability bonds.
- Impact infrastructure private debt: including direct private debt lending toward infrastructure such as solar/wind farms and social institutions.
- Impact private equity: investing in funds with a positive social and/or environmental impact.
- Real estate: investing to reduce energy use and carbon emissions of our real estate portfolio.

As described in Section I of our Zurich Responsible Investment Whitepaper, the starting point in determining Zurich's investment strategy is an integrated process used to define the strategic asset allocation in terms of asset liability management principles. Group Investment Management seeks to determine the optimal mix of asset classes that offer the highest long-term expected investment return given Zurich's liabilities, regulatory framework and allocated capital. This allocation results in a high proportion of debt instruments on our balance sheet, and in consequence translates into a higher focus given to our impact investment strategies for green, social and sustainability bonds and impact infrastructure private debt.

However, Zurich will keep evaluating new prospective opportunities across asset classes to broaden the approach and increase the investment volume. Visit our webpage to learn more about our latest impact investments and current exposure.

In Section III – Impact investing at Zurich, we elaborate on how, through our impact investments, we focus on primarily two areas where we seek to make a positive difference:

- By supporting a climate-neutral economy and encouraging environmentally friendly technologies, through our investments we can mitigate environmental risks.
- By helping to build 'community capital,' and through addressing the needs of communities that lack traditional means to achieve such goals, through our investments we seek to increase community resilience.

Zurich's impact investment strategy commits to investing not only a fixed amount in impact investments, but also aims to help to avoid millions of tons of CO_2 emissions per year. Through impact investments, we also believe we can make a positive contribution to the lives and livelihoods of a significant number of people. More information can be found in Section III – Impact investing at Zurich.

Principle 2:
Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

In **Section III** – Impact investing at Zurich: how we define and practice impact investing – we explain in detail how we choose investments in order to ensure that as an investor we achieve the desired impact through our investment.

In identifying potential impact investments, we will assess if the investment:

1. meets our definition of impact investing (intentionality – measurability – profitability)
2. supports our impact objectives (mitigating environmental risks and increasing community resilience)
3. contributes to our impact targets (avoiding the emission of five million tons of CO_2 per year and making a positive contribution to the lives of five million people in need) and/or contributes to the development and growth of the overall impact investing market.

This approach, embedded in our rigorous investment process for impact investments, helps us to identify investment opportunities to achieve our impact objectives and targets.

Zurich's impact targets are set at an overall portfolio level to allow for a holistic focus on financial and impact performance, while at the same time allowing for diversification.

However, Zurich evaluates impact investments within the context of specific asset classes and creates dedicated strategies for impact investment within each of those asset classes. Please see also Section III – Impact Investing at Zurich: investment approach.

The objectives of the central responsible investment team are linked to the progress made in delivering and implementing Zurich's responsible investment strategy. This includes specific targets that are set for impact investing.

Principle 3:

Establish the Manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels.[2] The narrative should be stated in clear terms and supported, as much as possible, by evidence.

[2] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, assisting with further resource mobilization, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.

At Zurich, we differentiate between investments in which the impact is aligned with our stated impact objectives, with a focus on actively increasing our investments in assets that naturally align with our asset allocation, such as for instance green bonds; and, on the other hand, those investments that are more catalytic in nature and, as a result, require further effort in adopting our investment processes, such as private market investments in emerging and frontier economies. At times, these investments might also create 'deeper impact'.

We believe that impact investing will only become a sustainable investment 'style' if it can be integrated into our overall approach to investment management. Opportunistic investments can on occasion supplement the portfolio. But in general, we want impact investments to be an integral part of the portfolio, not just one-offs. Consequently, in addition to the definition of impact investment (intentionality, measurability and financial profitability) we will also assess impact investment opportunities along the following lines: risk and return profiles, scale, structure and ESG risks.

In order to establish our own contribution to the achievement of impact, we aim at measuring impact on a pro-rated basis, that is the share of financing we provided to the underlying fund, asset or project that was instrumental in delivering impact.

In a broader sense, however we also focus on contributing to the growth and integrity of the impact investing market. We are convinced that only collective action can spread the spirit of impact investing across markets and mobilize capital on the scale needed to tackle pressing social and environmental issues. Close collaboration is needed to bring investors, businesses, public actors, and NGOs together to design the instruments capable of delivering the full, desired impact.

Mindful of the need to share information, Zurich seeks to work with other industry participants. It also supports industry initiatives and engages with stakeholders and policy makers to advance impact investment practices, and responsible investment practices more broadly, and to help establish a truly sustainable financial market system. In addition of being a founding signatory to the Operating Principle for Impact Management, we are a member of the Global Impact Investment Network's Investors' Council. We work closely together with many others in the field to help advance impact investment practices and identify new solutions. This approach also led to the decision to make our impact measurement methodology paper open source. Visit Section IV – Advancing together – to learn more about our contribution to the broader market.

How Zurich contributes toward fostering impact investing varies, depending on the impact asset class.

- Fixed income: Zurich is a founding member of the Green and Social Bond Principles and a member of the Executive and Steering Committee. The Principles facilitate voluntary guidelines for issuers, and for intermediaries, when labelling bonds as 'green', 'social' or 'sustainable,' and therefore support the functioning and growth of the green, social and sustainability bond market.
- In private equity, our investment professionals regularly participate in annual meetings, quarterly update meetings/calls, and fund advisory board meetings. Depending on the size of our commitment and relationship to the fund manager, we may obtain an advisory board seat for the fund. In co-investment opportunities, we may obtain a board seat the portfolio company.

Visit Section III – Impact investing at Zurich: how we define and practice impact investing – to learn more about our contribution.

Principle 4:

Assess the expected impact of each investment, based on a systematic approach

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[3] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[4]

The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[5] and follow best practice.[6]

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[3] Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
[4] Adapted from the Impact Management Project (www.impactmanagementproject.com).
[5] Industry indicator standards include HIPSO (indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (https://b-analytics.net/giirs-funds); GRI (http://www.globalreporting.org/Pages/default.aspx); and SASB (https://www.sasb.org/), among others.
[6] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.

Zurich uses the approach described in the preceding sections:

1. definition of impact investment;
2. impact objectives; and
3. impact targets

as its investment assessment methodology.

By assessing each investment during the due diligence phase, Zurich aims to achieve the impact intended, while also identifying the following fundamental aspects:

- **What:** Our impact objectives – mitigating environmental risks and increasing community resilience – allow us to set specific impact targets to help us identify the intended impact of a given investment.
- **Who:** In our objectives we clearly address environment and society, more precisely 'people benefited.' A detailed definition can be found in our impact measurement methodology paper.
- **Assessing significance of the intended impact:** We assess the pro-rata share of impact that Zurich can achieve through a specific investment.

Visit Section III – Impact investing at Zurich: how we define and practice impact investing, to learn more about our assessment tool. Our approach focuses on the identification and credibility of the potential impact based on our investment. Measuring this impact in terms of its size will be assessed in a second step after the investment has been made.

To measure the real impact, Zurich has developed an impact measurement framework that allows us to aggregate the impact achieved across the portfolio along our defined impact metrics. Our methodology paper describing how we do this is available on our website. Due to our asset-class approach, we have developed a methodology that can be adapted for various asset classes, allowing us to aggregate our impact on a portfolio basis.

The measurement framework allows Zurich to measure progress against the achievement of its impact targets. Zurich wants to know what each of the investments achieves in terms of impact, and to measure its contribution toward its impact investment objectives: mitigating environmental risks and increasing resilience.

Measurement helps to make better investment decisions and it also demonstrates that financial returns can be balanced with environmental and social returns. Over time we will learn to evaluate the significance of a certain impact.

Principle 5:

Assess, address, monitor, and manage potential negative impacts of each investment

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[7] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[8] As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

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[7] Applying good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

[8] Examples of good international industry practice include: IFC's Performance Standards (https://www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (http://www.ifc.org/cgmethodology) , the United Nations Guiding Principles for Business and Human Rights (https://www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/themes/human-rights.htm).

Zurich's **responsible investment strategy** articulates Zurich's approach to being a responsible investor (see **Section II** ESG integration at Zurich).

The strategy's first pillar focuses on capturing ESG-related risks and opportunities to enhance financial returns.

We proactively integrate ESG factors into the investment process – across asset classes, and alongside traditional financial metrics and state-of-the-art risk management practices.

ESG integration can be seen as the prerequisite for all our investment activities. From an impact investing perspective, ESG factors are not only taken into account for pricing an impact investment, but also help to scrutinize risks and adverse effects that could hamper the impact thesis. Accordingly, to qualify for an impact investment, an investment has to additionally satisfy the impact investment definition as described under Principle 2.

Please review Section II – ESG integration at Zurich: capturing ESG-related risks and opportunities – of our Responsible Investment White Paper to read how we integrate ESG criteria across our asset base. Visit our webpage to learn more about our progress in managing ESG risk.

Principle 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[9] The Manager shall also seek to use the results framework to capture investment outcomes.[10]

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[9] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.
[10] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

Zurich's impact measurement framework (mentioned in Principle 4) monitors progress toward our impact targets.

The framework applies a two-step process:

- First step: gathering reported impact numbers
- Second step: aggregating on portfolio level, across asset classes

The framework aggregates impact data across different asset classes in a harmonized structure based on information reported by issuers of impact investing instruments. We ensure, that we only count the share of impact, that we actually finance.

The responsibility for collecting data remains with the responsible investment team, supported by local teams and asset class experts.

The report is updated annually, based on the impact reported to Zurich.

Visit the methodology paper for further details on Zurich's impact measurement framework.

Assets that do not deliver the intended impact are stripped of the impact label and returned to the 'conventional' portfolio – or might be sold and exited. In addition, in cases where we do not agree with an impact label, we also notify the issuer/manager, stating the reasons we do not agree.

Principle 7:

Conduct exits considering the effect on sustained impact

When conducting an exit,[11] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

[11] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

In general, as an asset owner, we tend to be two or even three steps removed from the origination of the impact and in some cases have limited possibility to plan exits.

As debt provider (as in the fixed income and infrastructure asset classes) the years of financing are pre-defined at investment. Most debt investments are self-liquidating without exit decisions. Moreover, in fixed income, we often apply a 'buy and hold' investment approach.

In case of infrastructure private debt, a pre-emptive exit from the investment will be triggered by default on a covenant. In such cases, our asset manager tries to work with the sponsor to find the best solution. That might entail, for example, extending the loan if the sponsor brings in equity. Therefore, already during the due diligence phase, we asses an asset manager's work-out process style and we avoid those taking an aggressive approach.

In private equity, as we are managing a portfolio of funds, we typically hold our investments until maturity and are unlikely to liquidate an investment in the secondary markets. In cases where governance changes, we reserve the right to exit, as written in our investment process manual. When selecting fund managers, we assess how a fund manager assesses ESG factors from the start of an investment through to the end, and hold them accountable for managing the exit process. Some of our fund managers are signatories to the Operating Principles for Impact Management themselves; one states in its own principles that it aims to create 'a lasting legacy' by investing in companies.

Principle 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

As described in the impact measurement methodology paper, at the outset, we gather the impact numbers reported for every investment.

As described in the impact measurement methodology paper, at the outset, we gather the impact numbers reported for every investment. This is currently a manual and labor-intensive process, requiring us to read and analyze every single impact report. That also means that Zurich conducts its impact report based on impact numbers reported by the issuers of the impact investing instruments where Zurich is invested in.

While we believe the proposed methodology can be seen as a start, we are aware of the limitations and shortcomings it has. One of the shortcomings is certainly that impact is reported in different ways by issuers, such as ex-ante vs. post, and based on different baselines. Also, not all of our impact investments allow to compare ex ante estimates with ex post reporting. However, we will only label an investment as impact investment, if there is a credible impact hypothesis ex ante, even if it cannot be quantified from the start, which we will then contrast to the first impact reports.

We will keep learning from every impact investment we make, including market development and measurement experience. This will help to determine future impact investing decisions and should allow us to improve the investment processes, documentation and measurement. It should also aid determining the process and the scope and areas of where we invest. This type of 'feedback loop' helps us to understand what kind of impact investment we should focus on (or avoid). We have always made a point of sharing what we learn with the market, as part of our aim to 'advance together' with peers.

Principle 9:

Publicly disclose alignment with the Principles and provide regular independent verification[12] of the alignment

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

[12] The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.

This disclosure note re-affirms that Zurich's approach is in line with the Principles. It will be updated when material changes or upgrades to the process occur.

Independent verification will first be provided by Zurich's external auditor based on 2020 numbers and processes.

From there onwards, when material changes occur, or when a new auditor is appointed. Zurich will aim to independently verify the information as outlined in this disclosure statement. The verifier's opinion will be added to this statement.

Key performance indicators pertaining to Zurich's impact investing strategy, such as the total amount of impact investments, allocation to various asset classes and impact metrics, are published on Zurich's website and in various reports such as annual or sustainability reports and updated annually. These numbers receive reasonable assurance by Zurich's external auditor, as part of Zurich's overall non-financial reporting strategy.

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