



30 June 2023

(V24.10.23)

# **Baloise – Responsible Investment Policy**

For insurance funds of Baloise Group  
companies

# Table of contents

<b>Glossary</b>	<b>3</b>
<b>1 Purpose of this policy</b>	<b>5</b>
<b>2 Intention</b>	<b>5</b>
<b>3 Scope of application</b>	<b>5</b>
<b>4 Governance</b>	<b>6</b>
4.1 Governance of the Baloise Group	6
4.2 Governance at the level of Corporate Division Asset Management	7
<b>5 Strategy for responsible investment</b>	<b>8</b>
5.1 Overarching exclusions	9
5.2 Investment-specific exclusions	9
5.3 ESG integration	11
5.4 Best-in-class	11
5.5 Assessment of good governance practices	11
5.6 Our climate strategy	12
5.7 Active ownership	12
5.8 RI strategy of funds for alternative investments launched by Baloise Group companies	13
5.8.1 Selection of external managers	13
5.8.2 Investments in target funds for alternative investments	13
<b>6 Sustainability risks and risk management</b>	<b>14</b>
6.1 Integration of sustainability risks	14
6.2 Dealing with conflict of interest	15
6.3 Remuneration Policy	15
<b>7 ESG data</b>	<b>15</b>
<b>8 Memberships and collaboration</b>	<b>15</b>
<b>9 Disclosures</b>	<b>16</b>
<b>Appendix: Consideration of principal adverse impacts on sustainability factors</b>	<b>17</b>

## Glossary

Term	Description
Active ownership	The term “active ownership” refers to investors who concern themselves with environmental, social and governance (ESG) issues by voting on or engaging in discussions with company managers and Supervisory Boards in regard to these issues
Baloise Group	Bâloise Holding Ltd and its direct and indirect subsidiaries
Corporate Division Asset Management	Includes Baloise Asset Management Ltd and divisions of the Swiss units of the Baloise Group that report to the Head of Corporate Division Asset Management
ESG	<p>Environmental, social and governance. Umbrella term for environmental, social and corporate governance.</p> <p>Environmental aspects include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• Climate change adaptation policies</li> <li>• Greenhouse gas emissions (GHG)</li> <li>• Biodiversity</li> <li>• Pollution</li> </ul> <p>Social aspects include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• Inclusion and diversity</li> <li>• Health and safety</li> <li>• Working conditions</li> <li>• Standards within the supply chain</li> </ul> <p>Governance aspects include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• Diversity in the Executive Committee</li> <li>• Management Remuneration</li> <li>• Business ethics</li> <li>• Anti-bribery</li> <li>• Anti-corruption</li> </ul>
FINMA	Swiss Financial Market Supervisory Authority
Grandfathering	Temporary transitional arrangement
Insurance assets / insurance funds	Assets of Baloise Group companies. This does not include assets managed by insurance units of the Baloise Group that are subject to an investment strategy chosen by the third-party customer and a separate policy regarding ESG investments.
Policy	This document
Principal adverse impacts (PAIs) on sustainability factors	Actual or potential material adverse impacts of investment decisions on sustainability factors with respect to environmental, social and employment issues, respect for human rights as well as anti-corruption and anti-bribery pursuant to the EU Sustainable Finance Disclosure Regulation 2019/2088.

Responsible Investment	Responsible investment: this refers to the integration of ESG factors into investment decisions
SFDR	EU Sustainable Finance Disclosure Regulation 2019/2088
SSF	Swiss Sustainable Finance
SIA	Swiss Insurance Association
Sustainability factors	This term refers to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
Sustainable investment	<p>The EU Regulation 2019/2088 (SFDR) defines “sustainable investment” in Article 2(17) as:</p> <ul style="list-style-type: none"> <li>= an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy; or</li> <li>= an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that: <ul style="list-style-type: none"> <li>• such investments do not significantly harm any of those objectives, and</li> <li>• the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.</li> </ul> </li> </ul>
Sustainability risks	Such risks refer to an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment
SVVK – ASIR	Swiss Association for Responsible Investments
Target funds	Funds used in insurance assets. The term target fund does not include special and single-investor funds of Baloise Group companies, for which the provisions of this policy are applied at the direct investment level.
Third-party customers	Asset management customers of Baloise Asset Management Ltd, excluding Baloise Group companies
UN	United Nations
UN PRI	UN Principles for Responsible Investment
UN SDGs	UN Sustainable Development Goals

# 1 Purpose of this policy

This policy regulates the promotion of environmentally and socially responsible actions and good corporate governance. With regard to insurance assets, it regulates the integration of sustainability risks and opportunities into investment activities as well as the mitigation of adverse impacts on sustainability factors in the context of investment activities. The policy describes how sustainability factors are integrated throughout the investment process and within governance.

This policy serves the following purposes with respect to insurance assets:

- Determination of the consideration of sustainability factors in the investment process as part of the decision-making process for investments;
- Explanation of the strategies for incorporating sustainability risks into investment decision-making processes, risk management processes and reporting;
- Definition of roles, responsibilities, and knowledge requirements within different functions regarding sustainability.

## 2 Intention

Baloise Group is an insurance group that grew out of the idea of a community of solidarity and attaches particular importance to taking responsibility and placing its own actions at the service of sustainable development.

For Baloise Group, sustainable development and the insurance and financial services business have significant similarities: long-term activities and responsible handling of risks and resources. We therefore wish to secure our own business operations and thus our employees' jobs in the long term, and actively shape social transformation as a corporate citizen.

This Responsible Investment Policy has been developed to determine how the requirements regarding the consideration of sustainability risks and factors are met as part of the investment process for insurance funds and to provide a clear description of the beliefs with respect to ESG-related investments. We remain true to our values by acting in accordance with the Responsible Investment Policy.

## 3 Scope of application

The provisions of this policy apply to insurance funds only if this has been so decided and declared applicable by the respective responsible decision-makers of the insurance companies. In particular, this policy does not apply to the assets of third-party customers and investment funds, which are subject to separate requirements.

This policy applies to liquid direct investments of the insurance assets, the liquid direct investments of the special and single-investor funds of insurance companies of the Baloise Group and to funds for alternative investments launched by Baloise Group companies<sup>1</sup>. For the purposes of this policy, liquid investments are publicly traded equities and interest-bearing investments of governments and external companies. Especially direct and indirect investments in derivatives, commodities, real estate, mortgage investments as well as direct money market investments (incl. short-term loans) do not come within the scope of this policy.

---

<sup>1</sup> Cf. chapter 5.8.

The content of this policy is reviewed at least once a year. The review will assess whether the policy is up to date and complies with applicable national and international regulations, principles, and standards. If and where necessary, Baloise will take immediate action to adjust and update the policy.

## 4 Governance

### 4.1 Governance of the Baloise Group

The Baloise Group has had a Group-wide sustainability network since 2019. In 2021, country-specific working groups were established with a focus on implementing sustainability measures in the respective national markets. The working groups comprise members of all operating segments that have an influence on, or are influenced by, the issue of sustainability. These working groups are equipped with the necessary professional expertise to develop and regularly update the content of the sustainability approach, such as the value-added model.

The Corporate Executive Committee decides on the implementation of the content. The Board of Directors is responsible for developing the sustainability approach, embedding it in the overall strategy and overseeing its application. Since 2022, the Board of Directors' strategy and governance committee has also functioned as the sustainability committee, monitoring developments in sustainable management.

The following diagram depicts the structures within the Baloise Group:

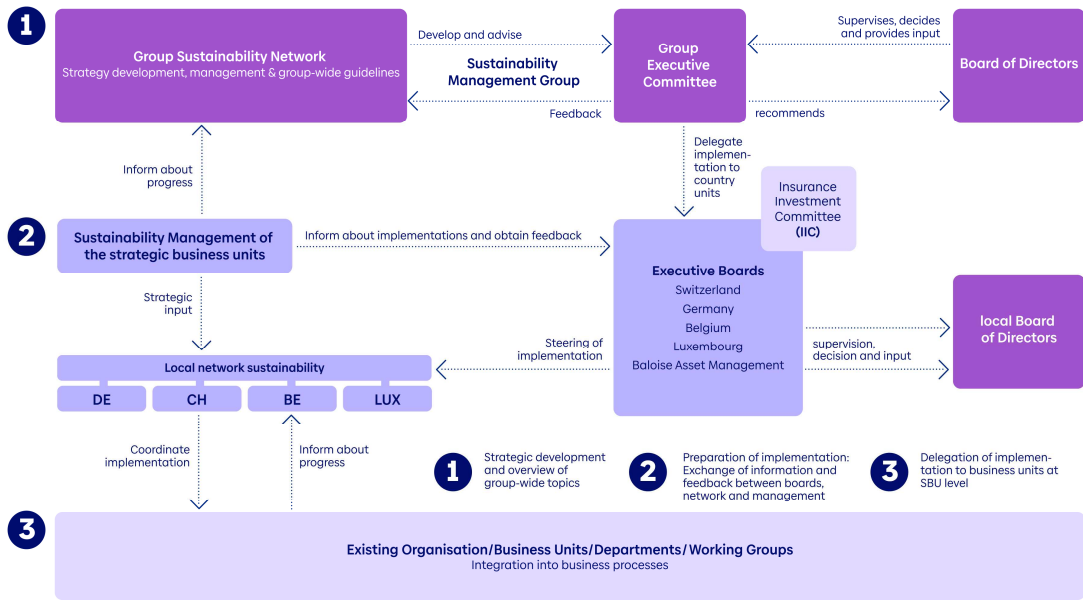


Figure 1: Structure of the Baloise Group

This diagram and other information on the subject of sustainability at the Baloise Group are available online at: [baloise.com/en/home/about-us/what-we-stand-for/sustainability.html](https://baloise.com/en/home/about-us/what-we-stand-for/sustainability.html).

This Responsible Investment Policy is defined by the Head of Corporate Division Asset Management. The Insurance Investment Committee (IIC) provides advice. This committee is composed of representatives of the Corporate Division Asset Management and the capital managers of the foreign insurance companies.

The Head of Corporate Division Asset Management issues the policy. The decision-makers of the Baloise Group insurance companies define the applicability of this policy.

## **4.2 Governance at the level of Corporate Division Asset Management**

Corporate Division Asset Management has suitable organisation and processes in place to ensure that the obligations and responsibilities arising from this policy and emerging contracts are adequately implemented.

The central units as well as their duties in the field of responsible investment for Corporate Division Asset Management are outlined briefly below:

### **Responsible Investment (RI) Core Team**

Corporate Division Asset Management has the necessary infrastructure and dedicated resources, which are independent of the operational functions and address sustainability issues. The core tasks of the RI Core Team include:

- Further development of RI strategies;
- Consultation for the entire organisation on all sustainability issues; and
- Monitoring of sustainability developments at corporate level and in terms of investments.

The RI Core Team also performs the following tasks:

- Initiation and management of cross-cutting ESG initiatives
- Development and coordination of ESG integration projects in organisation and business
- Coordination and exchange with the sustainability network and sustainability boards of the Baloise Group
- Ambassadorial function regarding RI
- Suggestions for the selection of new ESG data providers
- Development of training concepts and training of the organisation within the framework of the concepts adopted by the competent bodies

Regular exchange meetings take place between the RI Core Team and the control functions Risk Management and Compliance as well as the Head of Asset Strategy & Investment Controlling.

### **Responsible Investment (RI) Guild**

The Responsible Investment Guild is interdisciplinary and consists of the RI Core Team and representatives from Portfolio Management, Product Management, the Legal Department or Investment Controlling and Reporting as well as individual representatives from other units of the Baloise Group.

This Guild has the necessary expertise and performs the following functions:

- Development and regular update of concepts related to the responsible investment approach
- Exchange and networking
- Collaboration on sustainability-related projects and initiatives

## **Portfolio Management**

Portfolio Management is responsible for the implementation of the requirements of this policy in the investment process and, in particular, for the integration of sustainability-related criteria in the investment process and their compliance. The responsible portfolio managers have and maintain the necessary expertise in the area of sustainability.

## **Compliance**

Compliance reviews the integration of the sustainability-related criteria in the investment process and their compliance within the scope of investment activities with a focus on the regulatory and contractual aspects.

## **Risk Management**

Risk Management is responsible for defining, implementing, and monitoring control frameworks, in particular with regard to:

- identifying, monitoring and internal reporting of sustainability risks in the investment process;
- ensuring compliance with the specified responsible investment strategy at product level;
- transparent validation of external data suppliers of ESG data;
- traceability of the implemented ESG risk rating methodology of the external data provider; and
- ensuring that breaches of the responsible investment strategy are identified and reported to the appropriate bodies.

Other functions such as finance, investor relations, communications and legal can also play an important role.

Corporate Division Asset Management provides appropriate internal and/or external resources for the familiarisation and training of all stakeholders involved in order to provide them with standard and in-depth knowledge of the necessary ESG topics.

# **5 Strategy for responsible investment**

We pursue a general RI strategy using exclusions, active ownership elements and integration of ESG criteria into the investment process. The general strategy applies exclusively to investments in bonds made before 1 January 2023 (grandfathering)<sup>2</sup>.

For equity investments and newly made investments in bonds, the advanced RI strategy will apply from 1 January 2023: The advanced RI strategy includes all general exclusions, wider exclusions, a best-in-class approach and an active ownership strategy that includes dedicated direct corporate engagement.

The principal adverse impacts (PAIs) of investment decisions on sustainability factors are taken into account in the various aspects of the Baloise responsible investment strategy. You can find further information in the Appendix "Consideration of principal adverse impacts on sustainability factors".

The RI strategies for liquid investments are based on data from MSCI ESG Research. Investments without available MSCI ESG data remain part of the investable universe.

---

<sup>2</sup> The bond positions concerned can be held only if they comply with the conditions of the general strategy. A review is conducted at least once a year to determine whether grandfathering should be continued for these positions.



	General RI strategy	Advanced RI strategy
General exclusions	X	X
Wider exclusions	–	X
ESG integration	X	X
Best-in-Class	–	X
Proxy voting*	X	X
Collaborative engagement	X	X
Direct corporate dialogue	–	X
Public policy dialogue	X	X

\* Only for directly held listed Swiss shares.

Furthermore, specific criteria, which are described in chapter 5.8, apply to funds for alternative investments that are launched by Baloise Group companies and are used in the insurance assets of Baloise Group companies.

## 5.1 Overarching exclusions

These exclusions are applied to all direct investments regardless of the Responsible Investment Policy. For example, regulatory sanctions imposed by SECO, the EU, the UN and the US or requirements of the Swiss Association for Responsible Investment (SVVK-ASIR).

## 5.2 Investment-specific exclusions

We use exclusions as part of the responsible investment strategy to exclude direct investments in the immediate scope of this policy that are exposed to principal sustainability risks according to defined criteria. The term “exclusions” refers to the systematic exclusion of certain issuers from an investment portfolio on the grounds that their business activities or practices violate predetermined norms or values based on customer preferences, or that risks are anticipated.<sup>3</sup> The exclusions are based on the analysis of data provided by MSCI ESG Research.

Exclusions for direct investments in companies<sup>4</sup>:

Exclusion	Threshold	General strategy	Advanced strategy
Poor MSCI ESG corporate rating	MSCI ESG rating “CCC” excluded	X	X
Controversial weapons	<ul style="list-style-type: none"> <li>Cluster munition (turnover threshold of 0%)</li> <li>Land mines (turnover threshold of 0%)</li> <li>Biochemical weapons and systems (turnover threshold of 0%)</li> </ul>	X	X

<sup>3</sup> Pursuant to the AMAS definition.

<sup>4</sup> Excluding direct money market investments (incl. short-term loans).

	<ul style="list-style-type: none"> <li>Depleted uranium weapons (turnover threshold of 0%)</li> <li>Laser stun weapons (turnover threshold of 0%)</li> <li>Weapons – undetectable shards (turnover threshold of 0%)</li> <li>Incendiary weapons (turnover threshold of 0%)</li> <li>Nuclear weapons (turnover threshold of <math>\geq 1\%</math>)</li> </ul>		
Conventional weapons	Turnover threshold $\geq 10\%$	–	X
Thermal coal	Turnover threshold $\geq 10\%$	X	X
Generation of unconventional oil and gas	Turnover threshold $\geq 10\%$ for the general RI strategy and $\geq 5\%$ for the advanced RI strategy	$\geq 10\%$	$\geq 5\%$
Conventional oil and gas	Turnover threshold $\geq 30\%$	–	X
Tobacco	Turnover threshold $\geq 5\%$	–	X
Violations of the UNGC Principles and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises	Very serious violations (MSCI ESG “Red Flag”)	–	X

Exclusions for investments in countries including supranational organisations:

Exclusion	Threshold	General strategy	Advanced strategy
Poor MSCI ESG government rating	MSCI ESG rating “CCC” excluded	X	X
Countries with high GHG emission intensity	The worst 10% are excluded	–	X
Countries that have not ratified the Paris Agreement	Absolute criterion for exclusion	–	X
Countries on the UN sanctions list	Absolute criterion for exclusion	–	X
Countries on the EU sanctions list	Absolute criterion for exclusion (based on MSCI criterion “EU Sanctions”)	–	X
Countries with serious human rights and democracy violations	“Not free” according to Freedom House Index Score	–	X

### 5.3 ESG integration

The investment teams include sustainability risks into the investment analysis in order to reduce any potential adverse financial impact or reputational damage from sustainability risks.

Dedicated environmental, social and governance (ESG) data is made available to Portfolio Management. All investment teams have access to the MSCI ESG database.

### 5.4 Best-in-class

The advanced RI strategy provides for the application of a best-in-class approach. With this approach, the portfolio is constructed with regard to sustainability aspects by avoiding securities with high ESG risks. As part of the defined strategy, the lowest 20 per cent of issuers within the respective sectors or peer group are excluded, based on the MSCI ESG universe. This is applied as follows, depending on the asset class:

Direct investments in companies	Exclusion of the worst 20 per cent of the rated companies within the relevant industry, measured by the MSCI ESG rating (final industry-adjusted company score)
Direct investments in government bonds	Exclusion of the worst 20 per cent of the rated countries, including government-related issuers such as states, provinces, cities, municipalities, local authorities, funding institutions, agencies and supranational institutions, according to the MSCI ESG government rating (government-adjusted ESG score)

If the score of a company deteriorates after inclusion in the assets and the company is no longer part of the best-in-class universe, the investments may only be retained beyond the specified deadlines if, after assessment, direct engagement with the company is initiated<sup>5</sup>.

### 5.5 Assessment of good governance practices

As part of the investment process, we screen the companies in which we invest for good governance practices. There is an assessment for the direct investments in companies with the exception of the bond positions, which are held in accordance with the general strategy.

Direct investments in companies are excluded if the data used indicates that serious violations with respect to the environment, human rights and corporate governance have occurred and the company in question does not take any countermeasures. As such, companies that, according to MSCI ESG-based data, have serious controversies regarding the various dimensions of good governance practices, i.e., sound management structures, employee relations, employee remuneration and tax compliance, are excluded. In particular, companies must not violate the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions in the Declaration of the International Labour Organization on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

<sup>5</sup> Cf. chapter "Active ownership".

The assessment of good governance practices is based on the following dimensions:

- sound management structures;
- employee relations;
- employee remuneration; and
- tax compliance.

### 5.6 Our climate strategy

In order to maximize the impact of corporate citizenship on social transformation, the United Nations Sustainable Development Goals (SDGs) are used as a framework for the implementation of goals and measures, in addition to the value-added approach. The SDGs are 17 goals set by the United Nations and adopted by the governments of 193 countries around the world in 2015. These 17 goals provide a comprehensive roadmap for people, the planet, and global prosperity by 2030.

Within this framework, we focus primarily on climate action and thus on Sustainable Development Goal No. 13 (combating climate change) when it comes to responsible investment. We have developed our own climate strategy for this purpose. It is in our interest to minimise environmental risks while also achieving a positive impact on the environment in order to preserve it for us all in the long term.

Our climate strategy is based on the four strategic pillars and forms an integral part of the general RI strategy and, therefore, of this policy:



Figure 2: Four pillars of the Baloise Asset Management Climate Strategy

More information about the climate strategy is available at the following link:  
<https://www.baloise.com/en/home/about-us/what-we-stand-for/sustainability.html>

### 5.7 Active ownership

Active ownership is an integral part of our approach to responsible investment. A separate Active Ownership Policy defines the active ownership process and determines its implementation within the framework of portfolio management. The Active Ownership strategy consists of the following four pillars:

- 1) **Direct corporate dialogue:**  
Through Baloise Direct engagement activities, we seek constructive dialogue with companies with the aim to address specific sustainability issues. Within the framework of the advanced RI strategy, direct engagement may be considered in the following cases:
  - Deterioration in the MSCI ESG rating (final industry-adjusted company score) of a company after inclusion in the assets of the investment fund, which results in the investment no longer meeting the requirements of the best-in-class approach

- Serious violation of minimum standards of conduct in areas such as human rights, labour, environment and anti-corruption, defined as a “Red Flag” by MSCI;

The primary objective of direct engagement is to support the elimination of the cause of the deterioration of the MSCI ESG rating with respect to reported deficiencies in regard to the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

**2) Exercise of voting rights:**

We exercise the voting rights of listed Swiss share certificates in the actively managed insurance portfolio in accordance with the principles of good and ethical corporate governance.

**3) Collaborative corporate dialogue:**

In addition to direct engagement with companies, the investment team can also join a group of like-minded shareholders who are addressing or would like to address similar sustainability issues, which are referred to as collaborative engagements. Collaborative corporate dialogues are realised through participation in initiatives such as via Climate Action 100+ or the PRI Collaboration Platform.

**4) Public policy engagement:**

Finally, it is also possible to cooperate with the authorities on ESG issues in certain policies. Membership in the individual associations makes this cooperation possible. For example, we are a member of relevant working groups of various associations such as the Swiss Insurance Association (SIA), the Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF) (see chapter 8).

## **5.8 RI strategy of funds for alternative investments launched by Baloise Group companies**

Alternative investments typically have a medium to long-term investment horizon with no or limited tradability (liquidity). Changes in the investment strategy cannot be traced or can only be traced to a limited extent and with a time delay. Data availability and data quality for alternative investments are lower than that of liquid investments.

As such, this policy can only be implemented to a limited extent in the case of funds for alternative investments that are used in the insurance assets of Baloise Group companies:

### **5.8.1 Selection of external managers**

In accordance with this policy, when selecting service providers for alternative investment funds launched by Baloise Group companies, consideration is given to whether the alternative investment fund manager (AIFM) or investment manager respects the currently applicable exclusion criteria. These should take account of ESG integration within the meaning of this policy as a matter of principle.

### **5.8.2 Investments in target funds for alternative investments**

In accordance with this policy, when investing in target funds for alternative investments, attention is paid to compliance by the target fund with the currently applicable exclusion criteria. Furthermore, target funds should take into account ESG integration within the meaning of this policy as a matter of principle.

## 6 Sustainability risks and risk management

### 6.1 Integration of sustainability risks

We believe that incorporating ESG criteria into the investment process can have a positive impact on the risk-return profile and that we can reduce sustainability risks with potential financial implications. For a positive risk-return profile, a long-term and holistic investment horizon is essential in investment analysis. In this respect, we see the Responsible Investment Policy as an additional risk management tool.

We recognise that sustainability risks can have a material financial impact and result in losses that may affect the investments and the financial circumstances of the company and funds.

Sustainability risks are environmental, social or governance events or conditions that, if they occurred, could actually or potentially cause a principal adverse impact on the value of the investment.

Type of sustainability risks can be summarised as follows:

- Environmental risks, e.g. climate risks:
  - resulting from extreme weather events or physical climate change (referred to as physical risks);
  - which are associated with the transition to a CO<sub>2</sub>-neutral economy or with society's attitude towards climate change (referred to as transitional risks); or
  - in connection with climate-related legal disputes (referred to as litigation risks).
- Social risks associated with societal events (e.g. inequality, inclusivity, labour relations, investment in human capital, accident prevention, changing customer behaviour, etc.).
- Governance risks associated with irregularities in corporate governance (e.g. repeated significant breaches of international agreements, corruption, product quality and safety, sales practices, etc.).

Some markets, sectors and regions are more affected by sustainability risks than others. For example, markets, sectors and regions with relatively low government or regulatory oversight, or limited transparency or disclosure of sustainability factors, may be exposed to greater sustainability risks. The investment's exposure to different sustainability risks may therefore fluctuate in addition to other factors as exposure to different markets, sectors and regions varies.

Sustainability risks are integrated into the existing risk management framework.

By applying the sustainability-related exclusions in the investment strategy mentioned in chapter 5, direct investments in issuers and target funds that are exposed to material sustainability risks according to defined criteria are excluded. Details of the specific exclusions per asset class are provided in chapter 5. The objective of the exclusions is to reduce the sustainability risks in the investment portfolios.

Depending on the RI strategy, sustainability risks are further taken into account by applying the ESG ratings from MSCI ESG Research as part of the exclusions described in chapter 5 and the best-in-class approach.

Through the Active Ownership Policy, we use our financial leverage to convince companies to better manage sustainability risks and seize opportunities to secure their value.

## 6.2 Dealing with conflict of interest

We have issued policies and directives to ensure that conflicts of interest that may arise during investment and advisory activities related to the inclusion of sustainability risks and sustainability factors are carefully managed and seek to avoid or transparently disclose and address them.

## 6.3 Remuneration Policy

The Baloise Group's remuneration system is aligned with its long-term business activities and fiduciary focus. The Remuneration Policy promotes sound and effective risk management and in no way encourages excessive risk-taking that is inconsistent with our risk profile, including sustainability risks arising in particular from climate-related events or attitudes towards climate change.

# 7 ESG data

In implementing this policy, we rely on ESG data and analyses provided by external data providers. MSCI ESG Research LLC, a global leader in ESG data and ESG ratings, is used for investments in liquid assets. We have processes in place as part of quality assurance to validate data quality on a regular basis as well as to review and monitor the external provider.

The required ESG data is defined individually and depends on the relevant RI strategy. Possible data points include, but are not limited to, ESG ratings and scores (e.g. MSCI ESG rating, MSCI ESG fund rating), ESG indicators (e.g. MSCI analyses and assessments to determine exclusions) and raw data (e.g. GHG emissions and other indicators regarding principal adverse impacts on sustainability factors)<sup>6</sup>.

# 8 Memberships and collaboration

The Baloise Group is committed to helping shape the future development of responsible investments in the Swiss market: not only with its range of products and services, but also by joining national and international initiatives and working groups that help to promote sustainable finance and responsible investments.

We want to live up to our responsibility in the Swiss market for responsible investment and play an active role in shaping further developments. Consequently, Baloise Group units are members of the following initiatives:

- **Swiss Sustainable Finance (SSF)**
- **Asset Management Association Switzerland (AMAS)**
- **UN Principles for Responsible Investment**
- **Swiss Insurance Association (SIA)**
- **UN Principles for Sustainable Insurance**

Units of the Baloise Group are actively involved in some of the working groups of these initiatives.

We also want to intensify our efforts in the international context. That is why Baloise Asset Management Ltd signed the UN-backed Principles for Responsible Investment in 2018. UN-PRI is an independent, non-profit and leading advocate for responsible investment throughout the world. It examines the impact of investment on environmental, social and governance factors and has developed six principles to help its signatories integrate these factors into their investment process and ownership decisions.

---

<sup>6</sup> Securities for which no ESG data is available from external providers are not necessarily excluded from the universe.

#### **Our commitment**

As a signatory to the UN PRI, Baloise Asset Management Ltd is committed to the following principles:

**Principle 1:** We will incorporate ESG issues into the investment analysis and decision-making processes

**Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.

**Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.

**Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.

**Principle 6:** We will report on our activities and progress towards implementing the principles.

## **9 Disclosures**

Baloise attaches great importance to transparency with regard to sustainability. Relevant sustainability information will be disclosed in regular reports in accordance with Swiss and European regulations. The Baloise Group monitors market developments in sustainability disclosures and supports the Task Force on Climate-related Financial Disclosures (TCFD).



# Appendix: Consideration of principal adverse impacts on sustainability factors

## Purpose and regulatory framework of the Appendix

This Appendix aims to specify how the principal adverse impacts (PAIs) of investment decisions on sustainability factors are taken into account as a key component of responsible investment at Baloise and to set out the related strategies and processes. This includes, in particular:

- **PAI description:** Description of the principal adverse impacts of investment decisions on sustainability factors that Baloise takes into account.
- **PAI strategies:** Baloise's strategies for identifying and weighting the principal adverse sustainability impacts and sustainability indicators.
- **PAI roles and responsibilities:** Responsibility for implementing these strategies in the context of the organisational strategies and procedures.

This Appendix refers to the requirements to consider the principal adverse impacts of investment decisions on sustainability factors at entity level (Article 4 SFDR) and product level (Article 7 SFDR). The following overall legal conditions are particularly relevant within this context:

EU Regulations	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, the Sustainable Finance Disclosure Regulation (SFDR).
	Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of “do no significant harm”, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

The scope of application as defined in Chapter 3 of the Policy applies to this Appendix.

## Description of principal adverse impacts on sustainability factors

### Definition

PAIs refer to actual or potential material adverse impacts of investment decisions on sustainability factors with respect to environmental, social and employment issues, respect for human rights as well as anti-corruption and anti-bribery. As these impacts can have serious and long-term consequences, it is important to identify PAIs and take appropriate measures to minimise or avoid them.

PAIs and sustainability risks are closely linked and are key aspects of the EU concept of double materiality. While sustainability risks are associated with environmental, social or governance events or conditions which, if they were to materialise, could have actual or potential adverse impacts on the value of the investment (outside-in

risk), PAIs are understood as material adverse impacts of investments on sustainability factors, i.e. undesirable consequences of activities that affect environmental, social and governance balance (inside-out risk).

### Identification of PAIs

In order to take regulatory requirements into account,<sup>7</sup> Baloise makes a distinction between two main categories of PAIs in the investment process:

- **Environmental PAIs** refer to impacts on the natural environment, including air, soil and water pollution, climate change, resource use and loss of biodiversity.
- **Social PAIs**, on the other hand, refer to impacts on society, including employment rights, human rights, social justice, discrimination and impacts on local communities.

Different types of investments, i.e. investments in companies or sovereigns and supranationals, can involve different PAIs. The PAIs taken into account by Baloise for liquid investments based on the Baloise Responsible Investment Policy are listed below<sup>8</sup>:

Indicators taken into account for investments in investee companies		
Climate indicators and other environmental indicators		
Sustainability indicator for adverse impacts		Metric
Greenhouse gas emissions	1. GHG emissions	Scope 1 greenhouse gas emissions <sup>9</sup>
		Scope 2 greenhouse gas emissions <sup>10</sup>
		Scope 3 greenhouse gas emissions <sup>11</sup>
		Total GHG emissions
	2. Carbon footprint	Carbon footprint
	3. GHG intensity of investee companies	GHG intensity of investee companies
4. Exposure to companies active in the fossil fuel sector	5. Share of non-renewable energy consumption and production	Share of investments in companies active in the fossil fuel sector
		Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources
		Energy consumption in gigawatt hours per million EUR of turnover of investee companies, per high impact climate sector
6. Energy consumption intensity per high impact climate sector		
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas

<sup>7</sup> Pursuant to Table 1 of Annex I to Delegated Regulation (EU) 2022/1288 for investments in companies and sovereigns and supranationals.

<sup>8</sup> The extent to which these are taken into account depends on the RI strategy applied.

<sup>9</sup> Scope 1 emissions are emissions that occur from sources that are controlled by the company that issues the underlying assets.

<sup>10</sup> Scope 2 emissions refer to emissions resulting from the consumption of purchased electricity, steam or other purchased primary forms of energy generated in upstream processes in the company that issues the underlying assets.

<sup>11</sup> Scope 3 emissions refer to all indirect emissions that do not fall under Scope 1 and 2 emissions and occur in the reporting company's value chain, including upstream and downstream emissions, in particular for sectors of the economy that have a major impact on climate change and its mitigation.

Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average
<b>Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters</b>		
Social and employee matters	10. Violations of UN Global Compact (UNGC) principles and Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	11. Lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

<b>Indicators taken into account for investments in sovereigns and supranationals</b>		
<b>Environmental indicators</b>		
Environmental	15. GHG intensity	GHG intensity of investee countries
<b>Social indicators</b>		
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law

For some Baloise Group units, the following additional PAIs are also considered at entity level<sup>12</sup>:

Additional indicators for investments in investee companies		
Climate indicators and other environment-related indicators		
Emissions	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
Indicators For Social And Employee, Respect For Human Rights, Anti-Corruption And Anti-Bribery Matters		
Human rights	9. Lack of a human rights policy	Share of investments in entities without a human rights policy

Further PAIs can also be taken into account for specific products. Reference is made to the relevant product documentation for further information on individual products.

Additional PAIs are selected as part of the investment process based on factors including:

- Relevance for the investments concerned
- Product/portfolio-specific environmental and social characteristics or sustainable investment objectives
- RI approaches used
- Data available.

## Strategies for considering adverse sustainability impacts

### Identification of the principal adverse impacts of investment decisions on sustainability factors and methodology

The principal adverse impacts on sustainability factors are taken into account in the various aspects of the Baloise responsible investment strategy.

PAIs taken into account through:	General RI strategy	Advanced RI strategy
General exclusions	X	X
Wider exclusions		X
Best-in-class		X
Active ownership	X	X

#### - Taking PAIs into account through exclusions:

The application of the general and wider exclusions means that investments that have, or could have, adverse impacts on sustainability factors are excluded. The exclusions are based on predefined criteria that aim to minimise investments' adverse impacts on sustainability factors by making a deliberate decision either not to invest or to divest. By way of example, Baloise excludes companies that generate a predefined percentage of their turnover from activities and sectors associated with a high level of adverse impacts, such as controversial weapons, unconventional oil and gas, coal mining or violations of the UNGC. Please refer to Chapter 5.2 of the Policy for more information on exclusions.

<sup>12</sup> From table 2 and 3 Annex I to Delegated Regulation (EU) 2022/1288 for investments in investee companies

- **Taking PAIs into account through best-in-class approach:**

The best-in-class approach, as part of the advanced RI strategy, is aimed at deliberately giving preference to investments based on the MSCI ESG rating. The MSCI ESG rating comprises several key performance indicators (KPIs) / scores based on a series of material sector-specific ESG criteria. Individual KPIs/scores can directly show or implicitly take into account an issuer's performance as against its peer group with regard to certain principal adverse impacts on sustainability factors. Please refer to Chapter 5.4 of the Policy for more information on the best-in-class approach.

- **Taking PAIs into account through active ownership:**

The Active Ownership Strategy involves using Baloise's influence as an asset manager to actively address sustainability issues, the aim being to mitigate adverse impacts of certain investments on sustainability factors. Direct corporate dialogue, in particular, enables targeted engagement with the companies concerned, supporting a reduction in negative impacts on sustainability factors in cases where predefined criteria are met, for example by resolving the causes of serious violations of minimum standards of conduct (MSCI Red Flag). Please refer to Chapter 5.7 of the Policy for more information on active ownership.

- **Taking PAIs into account through other product-specific RI approaches:**

The principal adverse impacts of investment decisions on sustainability factors can also be taken into account and minimised through other product-specific RI approaches for specific products. In such cases, the individual consideration of PAIs is described in greater detail in the relevant product documents.

**Data and data sources**

PAIs are taken into account in liquid investments based on the data and evaluations supplied by the external provider MSCI ESG Research LLC. The specific data points were selected after a careful review and assessment of the RI and PAI strategies that Baloise applies. The following data points made available by MSCI ESG Research LLC can be used to take PAIs into account:

- Direct raw data on PAI indicators
- Evaluations performed by MSCI (e.g. regarding exclusions selected by Baloise)
- ESG ratings produced and updated by MSCI based on defined methodologies

If the data is insufficient, MSCI ESG Research may include its own analyses and estimates. ESG data may only be used for the investment universe assessed by MSCI ESG Research. Data on the principal adverse impacts on sustainability factors is still limited and not available for all investments across the board.

Information can also be used as part of our active ownership activities, for example with regard to specific indicators disclosed by the company or the measures and strategies that the company in question is taking to reduce adverse impacts on ESG factors.

Baloise has processes in place as part of its quality assurance system to ensure the regular validation of data quality and the reviewing and monitoring of the external provider.

## **Explanatory information on Chapter 4 “Governance” of the Policy in relation to PAIs**

The principal adverse impacts of investment decisions on sustainability factors are taken into account in the various aspects of the Baloise responsible investment strategy. Baloise has ensured that an appropriate

organisation and appropriate processes are in place for this purpose, as described in Chapter 4 of the Policy. The following units are also assigned special tasks with regard to PAIs:

#### **Responsible Investment (RI) Core Team**

The core tasks of the RI Core Team when it comes to taking the principal adverse impacts of investments on sustainability factors into account include:

- Further development of PAI strategies
- Analysis as to whether or not, and how, individual measures and RI approaches adequately address PAIs
- Providing advice to the entire organisation on PAI topics
- Monitoring PAI developments

#### **Responsible Investment (RI) Guild**

As an interdisciplinary forum and in the context of the PAI strategies, the RI Guild supports the development and regular updating of concepts for taking PAIs into account in the investment process in particular.