

MS Amlin Insurance SE
Investment Portfolio ESG Report



Brussels, December 2022

A Member of **MS&AD** INSURANCE GROUP

Introduction

Dear reader,

Environmental, Social and Governance (ESG) considerations have risen fast up the agenda of companies across the globe with in previous years, and the insurance industry is no exception to this trend. And that is a good thing: the insurance industry can play a key role in helping society better understand, mitigate and adapt to climate change as well as play its part in addressing social and governance issues. As experts in understanding and managing risks, as institutional investors and as providers of risk cover we are a natural partner for individuals, businesses and society at large in dealing with transformative developments. Next to that, the industry is a large employer with a powerful voice in many quarters of society. Steps and positions taken by insurers on social and governance issues matter.

And finally, we believe that integrating ESG considerations into our business decisions – on all levels – in the long run makes perfect sense from a competitive and financial perspective.

For all these reasons, we are strongly committed as a company to incorporating ESG into our company strategy and operations. Developing a solid understanding of where we stand today in this fast-moving environment – with regard to our own operational activities, our underwriting exposures and on our investment portfolio - is an important step in this process. This document is the first report on the ESG performance of MS Amlin Insurance SE's investment portfolio. It outlines the main characteristics of the portfolio, several metrics on its ESG performance as well as the actions that we are taking as a company to firstly increase further our understanding of how our portfolio performs across a number of ESG related metrics, and secondly to ensure we maintain and start improving its ESG performance.



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Head of Strategy and ESG

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The MS AISE investment portfolio

The AISE Investments portfolio is a diversified multi-asset multi-manager mandate covering various asset types. The main ones being:

- Equities
- Fixed Income: Government and Corporate Bonds
- Real assets (Property, Infrastructure, Farmland)
- Alternatives
- Cash

The breakdown into main asset classes of the portfolio as per end of Q3 2022 is shown in figure 1.

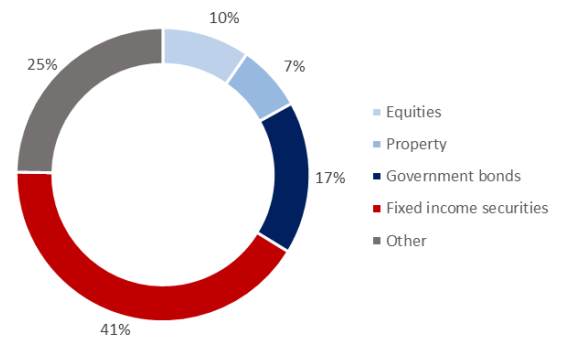


Figure 1: Breakdown of the MS AISE investment portfolio by asset class (Q3 2022)

Our net-zero ambition

The MS&AD Insurance Group has adopted a GHG reduction ambition in line with the Paris Climate Agreement. This means the group will reach net-zero emissions by 2050. It has set a medium-term goal of 50% reduction of scope 1 and 2 emissions and several categories of scope 3 emissions¹ vs. 2019 by 2030. Setting medium-term goals for investments is under consideration at the moment within the group.

MS AISE, as subsidiary of MS&AD, has taken over the ambition of aligning with the Paris Climate Agreement. In addition to the 2050 net-zero ambition (for scope 1,2 and 3 emissions), we are developing an intermediate emissions reduction target (for 2030) for our investments, ensuring optimal alignment to the MS&AD Group ambitions.

Our approach to measuring our investment portfolio's ESG performance

MS AISE is increasingly focused on understanding better the ESG performance of our investment portfolio. This is done through various activities and metrics outlined below. To date, this has led to better insight in our investment portfolio and decisions, and more awareness within the organisation about the role, impact and dynamics of ESG elements.

Sustainalytics portfolio ESG score

In measuring the carbon footprint of our investment portfolio, using reliable, high-quality data and ensuring the comparability across asset classes are key requirements for MS AISE. To this end, we primarily work with the ESG scoring methodology developed by the leading independent ESG data, research and analytics firm Sustainalytics. Having operated for over 25 years, Sustainalytics provides an ESG data coverage of over 20,000 companies across 172 countries.

The composite ESG score developed by Sustainalytics and used in this report is a combined ESG risk score that summarises the size of an issuers unmanaged ESG risk (the lower the better). The score is calculated by the aggregation of a set of Material ESG Issues (MEIs) that capture the full range of ESG

¹ Category 1: Purchased products and services (Subject: Paper and mail), 3: Non-scope 1 and 2 fuel and energy activities, 5: Waste from operations, 7: Employee commuting, 13: Lease assets

factors that may have a material impact on the companies' economic value. The metric varies from 0 to 100 with the following broad scale:



Figure 2: Sustainalytics ESG Risk score brackets

The modelling underlying the overall ESG score provided in this report, and used for measuring our portfolio's ESG performance, is performed on a security by security basis. Where an ESG score for a specific security is available, then that is taken as that security's score. If one does not (yet) exist, the country level ESG composite risk score is used instead.

Weighted Average Carbon Intensity (WACI) score

Next to the Sustainalytics scoring, following the recommendations of the Taskforce for Climate-related Financial Disclosures, we make use of the Weighted Average Carbon Intensity (WACI) scoring methodology to measure the carbon footprint of our investments. The Carbon Intensity of an individual security is defined as the total Carbon emissions (Both Scope 1 and 2) of the security issuer divided by the US Dollar output (revenue for a Corporate, GDP for a Sovereign) of the issuer. Taking the weighted average (using the market value of the individual securities) provides the WACI of the portfolio. This methodology is very similar to the PCAF methodology, with the difference being that the WACI is based on revenue whereas the PCAF uses enterprise value (debt and equity).

The main advantages of this metric are that it can be applied across asset-classes (which is vital in multi-asset portfolios), and can be readily decomposed for attribution analysis. Its main disadvantage is that it is sensitive to outliers.

The sources for the carbon intensity data are as follows:

- Bloomberg – ESG Module
- MSCI - Carbon Intensity Index.
- World Bank - National carbon emissions and GDP data.

MSCI provide an approximate scale for the relatively severity of the carbon intensity scores which is as follows:



Figure 3: MSCI Carbon Intensity scale

MS AISE’s investment portfolio ESG and WACI performance

Portfolio ESG score

The ESG score for MS AISE’s investment portfolio stood at **23.5** as per the end of third quarter of 2022. This places it at the lower end of the ‘medium’ bracket for ESG performance shown in figure 3 above.

Although there are few material holdings that represent a high ESG risk, there are naturally some areas that drive up the aggregate score of the portfolio. Figure 4 below compares for the main asset in our portfolio the share of total assets under management with the contribution to the overall ESG score. Figure 5 shows the share of our assets under management (AuM) of industries that typically have above-average ESG scores. Issuers from these industries today amount to 4.5% of MS AISE’s total AuM. As part of our ongoing analysis work and engagement with asset managers, we aim to better understand the underlying assets and the efforts by issuers to improve their ESG scores over time. On the basis of this analysis and engagement work, we will determine whether corrective action is needed towards these industries going forward.

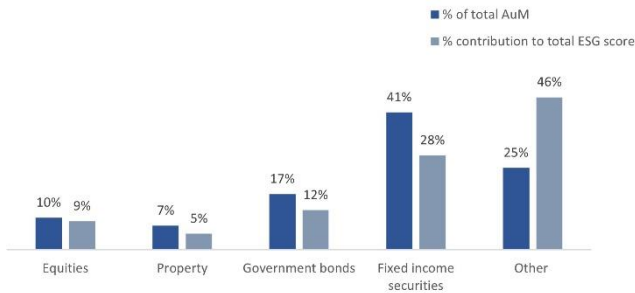


Figure 4: Breakdown of the MS AISE investment portfolio by asset class (Q3 2022)

Industries with significant ESG scores	% of total AuM
Aerospace / Defence	0.9%
Auto manufacturers (incl. parts and equipment)	0.9%
Engineering, machinery and Construction	0.8%
Transportation (incl. trucking, leasing)	0.7%
Commodity	0.6%
Oil & Gas (incl. services)	0.4%
Mining (incl. machinery and construction)	0.2%
Pipelines	0.1%
Total	4.5%

Figure 5: Examples of industries with significant ESG scores and their share of total AuM in the MS AISE portfolio

Portfolio WACI

The calculated WACI for the MS AISE portfolio is **148.4 tons of CO2e emissions / \$m sales/GDP**, which places the portfolio in the 'medium' carbon intensity bracket. Below the breakdown per asset category is shown.

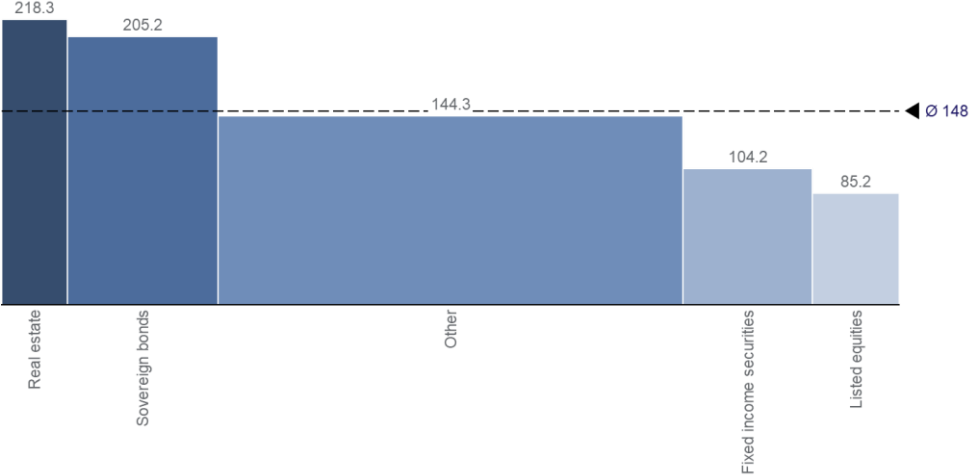


Figure 6: WACI score of the MS AISE portfolio, by asset class (as per Q3 2022)

MS AISE's ESG investment approach

MS AISE's investments are managed through MS Amlin Investment Management Ltd. (MS AIML). MS AIML is responsible for the day-to-day management of MS AISE's investments and operates within the Investment Governance Framework and the Investment Policy, Standards and Investment Guidelines. MS AIML only invests in assets and instruments whose risks can be identified, measured, monitored, managed, controlled and reported. Cornerstone of MS AISE's investment strategy as an insurer is to optimise long term risk adjusted returns keeping in mind the interests of policyholders. That said, integrating ESG considerations into our investment strategy is a component in making sure our ESG ambitions extend to our role as an institutional investor. In parallel, in a context where especially climate change impacts markets more and more, making sure policyholders see a stable, optimised long term return requires integrating ESG considerations into our investment strategy.

Therefore as we gain a better understanding of the profile of our investment portfolio from an ESG perspective, we will further refine our ESG policy to guide MS AIML's investment activity on our behalf.

Exclusions

As per MS&AD's global directive to its subsidiary entities, MS AISE does not invest in issuers involved in the following activities:

- Cluster munitions producers
- New coal fired power plants
- New coal mining projects

Subsidiary entities of MS&AD are required to sell any holdings they may have in these areas. MS AISE does not hold or has recently sold holdings in these areas.

Sub-Advisor Oversight and Selection

Within our investment model, MS Amlin Insurance SE provide an investment mandate to our in-group investment management partner Amlin Investment Management Ltd. (AIML), who act as overall asset manager. Individual asset purchase decisions are made by external asset managers (sub-advisors). As a result, strict scrutiny over asset manager selection and monitoring is essential to ensure that they are appropriately integrating ESG factors into their dealings.

At a sub-advisor level, ESG factors are integrated into the wider investment process as part of due diligence performed on all asset issuers as part of the asset selection process, alongside traditional factors such as financial stability and outlook. These factors are also considered when performing any delegated functions, such as proxy voting.

At the IM level, responsible investing requirements are incorporated into the sub-advisor/manager selection process through screening interviews and the expectation for all new sub-advisors/managers to be signatories to the UN Principles for Responsible Investing.

AIML also engages on an ongoing basis, on MS AISE's behalf, with the sub-advisors to discuss any material developments in their ESG / WACI scores as well as their (plans for or actions on) holdings that are flagged as high risk from an ESG perspective.

Next steps

Our efforts for the 2023 and beyond will focus on both deepening and solidifying our insight into the ESG performance of the investment portfolio and developing further our ESG investment policy on the basis of this improved insight. Actions as part of the latter are likely to include, but will not be limited to:

- Developing and executing an investment strategy that balances our portfolio profitability targets and risk appetite on the one hand with the ambition to move to a net-zero emissions portfolio on the other. This will include the building down of our exposure to assets that stand in the way of our ultimate net-zero ambition as well as increasing the share of assets with strong ESG/GHG credentials.
- Expanding our list of fully excluded activities or industries
- Exploring how we can employ an engagement strategy with issuers and asset managers that is in line with the scale and composition of our investment portfolio

A more granular and stable insight into the ESG/GHG profile and performance of the portfolio should allow us to set a clear ambition and emissions reduction path for the coming years, in alignment with the ambitions and actions of our parent company.

These actions are part of the ongoing development of a holistic ESG strategy within MS AISE, aligned with and integrated into the organisation's overall corporate strategy. Such work also incorporates:

- Translating the goals, commitments and ambitions of our ultimate parent company (MS&AD) into those of MS AISE
- Working closely with AIML, our asset manager, to strengthen their ESG policies and procedures and the insight and support that they can deliver
- Further strengthening the embedding of ESG and sustainability into the governance of our organisation and the performance objectives of our leadership team

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Appendix 2: A note on MS Amlin Insurance SE's business, structure and system of governance

Legal form

The name of the Company is MS Amlin Insurance S.E. ('MS AISE' or 'the Company'). The legal form of the undertaking is a "Societas Europaea" or "S.E.". The Company is domiciled in Belgium. The address of its registered office is:

Koning Albert II Laan 37
1030 Brussels
Belgium

Group structure

MS AISE is a wholly owned subsidiary of Mitsui Sumitomo Insurance Company, Limited ('MSI'), which itself is a wholly owned subsidiary of MS&AD Insurance Group Holdings, Inc. ('MS&AD'). Both MSI and MS&AD are registered in Japan.

The registered address of MSI is 3-9, Kanda Surugadai, Chiyoda-ku, Tokyo, Japan.

The registered address of MS&AD is Tokyo Sumitomo Twin Building (West Tower), 27-2, Shinkawa 2-chome, Chuo-ku, Tokyo, Japan.

MS&AD is the ultimate parent of MS AISE, and the consolidated accounts of MS&AD represent the largest group in which the results of the Company are consolidated.

For the reporting year 2022, MS AISE is subject to supervision by the National Bank of Belgium (NBB) as well as its branch country regulators.

MS AISE operates in four countries, and is organised and managed through two distinct operating segments as follows:

- Marine: Primarily focusing on cargo, hull, liability, fixed premium protection & indemnity and yacht portfolios, and other specialist areas such as specie. Operates through the MS Amlin Marine NV ('MS AM') cover holder which is also part of the MS&AD Group.
- Property & Casualty: Providing insurance coverage in three main areas – property, casualty and motor – for clients in the Netherlands, Belgium, France and the United Kingdom.

MS AISE does not have any related undertakings where a proportion of ownership is held.

This report has as a basis of presentation Solvency II as well as BEGAAP and IFRS for comparative purposes. IFRS principles are presented as this is the basis by which the shareholder assesses the Company and by which the Management Committee and Board manage the Company

System of governance

MS AISE has a Board of Directors (the 'Board') and a Management Committee. The Board is constituted to include an appropriate balance of Executive and Non-Executive Directors. The Board has authority over the conduct of the entire affairs of the Company, while recognising that it is a wholly owned subsidiary of MSI. MS AISE therefore operates within a framework, strategy and structure set by its immediate parent. The parent is represented on the Board, but this does not impair the Board's obligation to act in the interests of all stakeholders, in particular in the interests of policyholders.