

SUSTAINABLE INVESTMENT REPORT 2023

SCOR ILS FUND - Atropos

Report addressing Article 29 of the French
Energy and Climate Act

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INTRODUCTION

Through the Insurance-Linked Securities ("ILS") asset class, which encompasses catastrophe bonds (cat bonds) and OTC transactions, financial markets take part in building resilience and accelerating recovery after a disaster such as an earthquake or hurricane.

Like all investment vehicles offered by SCOR Investment Partners, SCOR ILS Atropos fund ("Atropos") strictly adheres to SCOR Investment Partners' investment policies.

Currently, there is no standardized market approach to ESG, nor a specific, defined taxonomy for ILS investments. Many investors consider ILS investments to be aligned with sustainable investment goals, largely because the coverage provided directly or indirectly to policyholders allows them to rebuild physical assets (public infrastructure, houses, etc.) that have been damaged or destroyed by natural disasters.

ESG data on transaction counterparties (cedants) remains weak, however, with poor underlying data quality. This is especially true for US or Asian cedants, who represent a substantial part of the investment universe and who generally underperform European cedants in this regard. There is a growing incentive for cedants to take a transparent approach, however, and to publish more detailed data about their ESG policies and practices and their exposure to underlying risks.

As a result, SCOR Investment Partners has, to date, decided to classify its existing ILS funds under Article 6 of the SFDR regulation. However, in line with its commitment to sustainable investing, SCOR Investment Partners is in the process of including ESG criteria in its qualitative assessment of transactions. SCOR Investment Partners should be in a position to establish:

- an exclusion list by activity,
- an exclusion list by type of underwritten risk,
- initiatives to promote responsible insurance and underwriting policies to cedants,
- a strategy for discussion with brokers in order to gather additional information and obtain more transparency from cedants.

ALIGNMENT WITH THE PARIS AGREEMENT

Atropos does not have an alignment strategy with the objectives of the Paris Agreement.

For a fund whose objective is to provide coverage against natural disasters, the production of carbon footprint and alignment trajectory data is not currently relevant. This is because such a footprint is recovered at the level of the issuer (i.e. mainly insurers and reinsurers) and not that of the bond, and therefore does not accurately reflect the carbon footprint of the fund.

Nonetheless, SCOR Investment Partners takes climate-related risks into account in the fund's investment strategy.

Analysis of carbon footprint

SCOR Investment Partners uses the carbon emission estimation from Moody's for 2023 data. Previously, data from ISS ESG were used so it is therefore not pertinent to compare the results to the ones of last year. We decided to change the data provider to have an estimation model that fits our investment universe.

The resulting snapshot is only one indicator at a given point in time and provides little information on the approach or commitment of the issuers regarding climate risk in general, and risk related to greenhouse gas emissions in particular.

The carbon footprint assessment is based on a certain number of hypotheses and conventions, including the breakdown by type of greenhouse gas emissions:

- **Scope 1:** direct production of greenhouse gas from fossil fuel consumption,
- **Scope 2:** indirect production of greenhouse gas from energy consumption, which itself consumes fossil fuels,
- **Scope 3:** other forms of greenhouse gas production related to the issuer's activities.

Given that the Scope 3 methodology is quickly evolving as well as the heterogeneity of the data associated with Scope 3 emissions, SCOR Investment Partners has decided to focus on Scope 1 and 2, pending more reliable Scope 3 data.

This analysis is carried out on the entire portfolio, excluding cash.

CARBON EMISSIONS ASSOCIATED WITH THE PORTFOLIO, SCOPE 1 AND 2 (AT 31.12.2023) ²	
Carbon emissions	tCO ₂ e
Scope 1 carbon emissions financed	9 206
Scope 2 carbon emissions financed	63 470
Total carbon emissions financed	72 676
Carbon footprint	tCO ₂ e / invested USD Million
Scope 1 carbon footprint	6.61
Scope 2 carbon footprint	45.57
Scope 1 and 2 carbon footprints	52.18
% of assets covered by carbon emissions (excluding cash and equivalents)	
Published	23%
Estimated	34%
Not available	44%
WACI (Weighted Average Carbon Intensity)	tCO ₂ e / USD Million revenue
WACI Scope 1	3.07
WACI Scope 2	4.76
WACI Scope 1 et 2	7.82
% of assets covered by carbon emissions	
Published	20%
Estimated	57%
Not available	22%

² All the indicators regarding carbon are calculated for the investments for which carbon emissions, revenue and/or enterprise value are available

Climate change and ILS

Climate change leads to physical risks that can be “acute” or “chronic”. Physical risks can directly impact households, businesses or governments by causing physical destruction. This destruction may be direct or indirect, for example through supply chain disruption. Changes in water availability and quality, food security and extreme temperature swings can affect the organization of businesses and governments.

Among the risks related to climate change, “acute” physical risks are defined as those risks connected to natural disaster-type events, which include extreme weather events such as tropical storms and floods.

“Chronic” physical risks refer to longer-term climate changes that may trigger a sea level rise or recurring heat waves, for example. These risks may require businesses and institutions to make significant and costly adjustments.

The ILS asset class covers acute climate risks as well as other acute risks of natural disasters such as earthquakes or volcanic eruptions. ILS-type financing thus contributes to the financing of reconstruction and therefore also to the common good.

In addition, SCOR undertook strong commitments in its Climate Policy, stemming from its acute awareness of the urgency to act against global warming. As such, SCOR Investment Partners does not invest in companies or projects involved in the following businesses and sectors:

- the thermal coal sector, whether the companies or projects financed build coal-fired power stations, extract coal or produce electricity from coal. The effective level retained for coal-related activities is 1% of sales. This threshold reflects the uncertainty linked to the quality of the data used, as well as not penalizing issuers about to leave this type of activity,
- the hydrocarbon sector, i.e. companies or financed projects involved in the conventional or non-conventional oil and gas production chain (upstream, midstream, downstream). SCOR Investment Partners uses the Bloomberg classification for these exclusions. The sectors concerned are Oils & Gas, Pipelines and Gas.

ALIGNMENT WITH LONG-TERM BIODIVERSITY OBJECTIVES

As of end-December 2022, Atropos was not able to measure the extent to which it adheres to the Convention on Biological Diversity.

As of end-December 2022, Atropos does not analyze its contribution to reducing the principal factors that put pressure on biodiversity as defined by the Intergovernmental Platform on Biodiversity and Ecosystems Services.

SCOR Investment Partners remains attentive to financial market progress and is involved in related research, in particular through its involvement in the biodiversity working group of the Institute for Sustainable Finance. However, given the nature of Atropos and its underlying assets, short-term developments in this area are unlikely.

ESG CRITERIA IN RISK MANAGEMENT

Because of the specificities of the asset class, ILS requires a unique approach in estimating extra-financial impacts. As a result, SCOR Investment Partners has chosen to conduct an environmental, social and governance (ESG) assessment of the cedants associated with each bond in their portfolio.

Identifying ESG risks

ESG risks are considered in the management of Atropos' assets in the same way as financial risks. This sustainability risk results from climate change (known as "physical risk") or from the way in which companies respond to climate change (known as "transition risk"). Social factors (such as wage disparities, discrimination, poor working conditions, unsafe employee health and safety practices, etc.) and governance factors (such as breaches of international agreements, corruption, fraud, etc.) can also result in sustainability risks.

The level of risk exposure of the companies in which Atropos invests depends on several factors: sector, location, market area, value chain structure and company-specific characteristics. For each of the fund's investments, the ILS investment team follows a qualitative approach aligned with SCOR Investment Partners' criteria. ESG considerations are always considered for ILS investments, but no minimum criteria are strictly applied, apart from the application of exclusions.

Evaluating ESG risks

The investment team integrates ESG criteria into the qualitative assessment of investment opportunities, prior to any investment. This work focuses on two main areas: criteria relating to cedants and criteria relating to transactions. Exclusion policies are applied prior to any initial assessment.

Criteria related to the cedant

A cedent is an entity that obtains coverage, in this case from Atropos, against the occurrence of a disaster. The cedents currently active in the market are mainly insurers, reinsurers, businesses and governments.

Issuers' KYC (Know Your Client) procedure for an ILS investment includes the following steps:

- verification of the integrity of businesses and the absence of sensitive controversial issues,
- verification of the effective role of businesses in the process of redistribution after an event,
- verification of the integrity of executives.

Currently, the ESG analysis based on cedants is as follows:

- the external ESG rating provider, ISS ESG, currently covers around 47% of the cedants to which SCOR Investment Partners is exposed (% of outstanding). ISS ESG's ESG rating is based on more than 800 indicators, around 90% of which are sector-specific. For each sector, 5 key questions account for more than 50% of the overall weight of the rating.
- SCOR Investment Partners' Sustainable Investment team has developed a rating methodology, based on the methodology of the Sustainable Accounting Standards Board (SASB), through which the objective is to increase the overall coverage of cedants in the medium term;
- where available, the investment team also refers to ESG policies and practices that may be disclosed in the transaction documentation.

Apart from these transactions, the ILS investment team engages in regular discussion with brokers to promote improvement in the level of cedant transparency when ILS transactions are structured.

Meanwhile, in 2023, SCOR Investment Partners has integrated ILS ESG Transparency Initiative. This initiative was created in 2022 by stakeholders in ILS (insurance-linked securities) in order to improve the transparency of cedants in terms of environmental, social and governance (ESG) data on the ILS market. Through this initiative, an ESG questionnaire is systematically sent to cedants emitting catastrophe bonds.

Atropos' assets under management by cedent type are as follows:

ATROPOS: FUND COMPOSITION BY CEDENT TYPE (% OF NET ASSETS) AT 31.12.2023	
Insurers	73.8%
Corporates	0.6%
Governments	0.7%
Reinsurers	24.9%

The vast majority of the cedents involved in the ILS instruments of Atropos are insurers, reinsurers and businesses.

Transaction criteria

The investment team also attentively examines the structural characteristics of the transactions in which it invests, since they may present several positive ESG aspects:

- ILS transaction collateral can be invested in EBRD and IBRD bonds whose proceeds are directed towards financing green projects, while offering AAA credit quality, instead of investing in US Treasury bonds,
- transactions with a specific purpose or social aspects are regarded favorably. Cat bonds issued by the IBRD, for example, which offer protection against disasters in developing countries that have a significant insurance gap, or transactions initiated by public insurance pools in certain industrialized countries acting as an insurer of last resort (in the United States, FEMA or Florida's Citizens Property Insurance, for example),
- Other characteristics might comply with ESG, such as cat bonds whose freed-up capital is invested in green projects.

Prioritizing ESG risks

SCOR Investment Partners prioritizes ESG criteria according to their relevance by asset class, but also according to the availability and quality of data.

The management team has specifically identified the physical risks associated with climate change as material to Atropos' investment strategy.

The last few years have seen:

- empirical evidence of climate change, such as stronger, slower and wetter storms (Harvey 2017, Hagibis 2018, Ida 2021, Ian 2022) and drastic droughts (forest fires in California),
- the appearance of more serious events such as hurricanes in the Atlantic Ocean or Japanese typhoons,
- significant losses due to secondary hazards such as flooding or forest fires.

In the case of cedants, if they have an ESG rating assigned by the external data provider, ISS ESG, the sustainability risks taken into account are those identified by this provider.

ESG COVERAGE AT 31.12.2023		
Total cedants	92	
Total assets under management (M US\$)	2 480	
Cedents rated	40	43.48%
Assets under management rated (M US\$)	1 173	47.28%

AVERAGE RATINGS AT 31.12.2023		
Max	Average	Min
2.71	1.80	1.35

Managing the risks of ESG criteria

Physical risk, transition risk, litigation risk and social and governance risks are taken into account when evaluating issuers. Depending on their relevance, they are identified and analyzed in the analyst's assessment, whether internal or external.

These risks are integrated into the investment process and the risk management process if they prove to be risks that could have a significant negative impact on the investment value and affect the fund's profitability.

The investment team integrates this qualitative ESG assessment into the decision-making process, in which the approach is applied to each tranche of risk exposure (for example, storms in Florida) to avoid unintentional bias. For each tranche, based on the fund's investment strategy, a target positioning is defined within a list of comparable investment opportunities. A bottom-up analysis of relative value is then carried out to select the best opportunities in each sub-fund from both a quantitative and qualitative point of view, while including the qualitative ESG component described above. All other things being equal, an investment opportunity with better ESG characteristics will be favored by the management team thanks to the qualitative analysis carried out.

As a result, based on the experience of several years, the investment team has adjusted the investment strategy to adapt to the growing importance of the physical risks associated with climate change:

- reducing portfolio risk where there is evidence of an increase in severity,
- drastically reducing exposure to secondary perils clearly linked to global warming, particularly if they are difficult to model,
- increased prudence in triggering operations based on aggregate annual loss thresholds, which are more exposed to an increase in the frequency of natural events.

In addition to the exclusions linked to fossil fuels mentioned above, SCOR Investment Partners applies restrictions to its investment universe. The exclusions are normative and sector-based in order to align with its values and with current regulations.

SCOR Investment Partners applies to each investment a series of filters and restrictions derived from internal or international standards:

- exclusion of high-risk jurisdictions according to the Financial Action Task Force (FATF), and ad-hoc internal analysis for jurisdictions under close surveillance (FATF) or third countries with insufficient AML/CFT (Anti-Money Laundering / Countering The Financing Of Terrorism) arrangements (European Commission) or non-cooperative countries and territories for tax purposes (European Union),
- Office of Foreign Assets Control (OFAC) sanctions list,
- European lists of sanctions and frozen assets,
- exclusion of companies that have committed serious violations of the United Nations Global Compact (UNGC) or the OECD Guidelines for Multinational Enterprises and have not demonstrated satisfactory corrective action.

With regard to sector exclusions, the methodology aims to exclude sectors considered too harmful and for which more sustainable alternatives exist.

In the first place, SCOR Investment Partners does not invest in companies whose activities are related to the following controversial and unconventional weapons:

- compliance with the provisions of the Ottawa Convention (anti-personnel mines) and the Oslo Accords (cluster bombs),
- exclusion of companies involved in the production, sale and distribution of controversial weapons (chemical weapons, biological weapons, white phosphorus, depleted uranium weapons and nuclear weapons outside the Treaty on the Non-Proliferation of Nuclear Weapons).

Furthermore, as the SCOR group is a signatory to the Tobacco Free Finance Pledge, tobacco manufacturers are excluded from the investment universe of SCOR Investment Partners. Manufacturers of tobacco related products (major components, e-cigarettes, heated tobacco products and smokeless heating devices) are also excluded. In addition, companies with a turnover of more than 15% related to tobacco distribution are excluded.

The ILS asset class excludes transactions involving the surrender of life insurance policies. The profitability of these contracts increases if the longevity of the group of individuals concerned decreases. For ethical reasons, SCOR Investment Partners does not participate in this market segment.

ESG risks and methodology

SCOR Investment Partners measures the financial risks of ILS investments using tools that model losses from natural disasters while taking climate changes in account. "Acute" physical risks are analyzed for Atropos fund using disaster models. These models make it possible to simulate fictitious, but probable, natural disasters and assess the resulting potential losses for governments, businesses or households. More specifically, the models calculate destruction rates based on the geographical location of investments. These rates are then used to determine the potential losses suffered by the investments if a natural disaster were to occur.

The expected loss is the estimated average annual capital loss due to payments made by Atropos to cover damages from potential disasters.

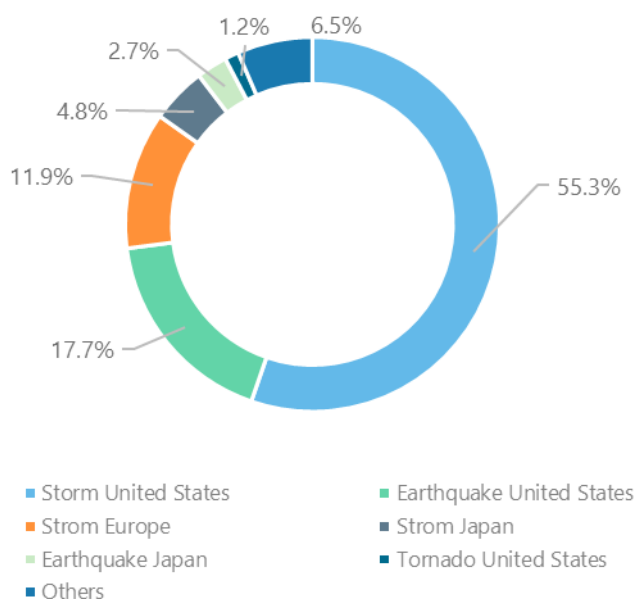
Expected loss is determined using a simulation model for natural disasters. This model simulates 10,000 years of catastrophic events at the global level and generates a capital loss for the portfolio for each of the 10,000 years. The average of these 10,000 years of simulated losses is the expected loss.

Results of the analysis

As of December 31, 2023, the expected loss is 2.58%. This means that, on average, without taking into account the return received (from cat bond and OTC coupons), Atropos expects to give up 2.58% of the value of its assets each year to compensate for the damage caused by natural disasters.

Atropos' expected loss breakdown is the following:

BREAKDOWN OF THE EXPECTED LOSS ON ATROPOS (AT 31.12.2023)



Atropos diversifies its risk exposure by breaking it down by type of peril (storm, earthquake, etc.) and geographical region. Nevertheless, Atropos reflects the bias of the asset class, which is concentrated in areas where the need for hedging is greatest, namely the United States, Japan and Europe.

The management of Atropos, through its diversification and its choice of participation in financial reinsurance programs, has made it possible to meet the dual objective of helping to reduce the social impact of these natural disasters (by enabling the rapid payment of the insurance policies needed to ensure business continuity and to start rebuilding homes and businesses if necessary) while minimizing losses for its investors, and thereby enable them to continue to participate in the reinsurance business.

Evolution of the methodology

Providers' standard models are increasingly taking climate change risks into account, especially as the inclusion of a short-term view, in addition to the standard long-term view, better reflects the changes in trends over the last three decades and generally shows a higher expected loss than the long-term view. The models take account of climate change trends in a forward-looking approach, but with a maximum time horizon of five years. The investment team uses a model that is in the process of integrating a real vision of climate change that will simulate the impact of climate change on ILS portfolios based on several global warming trajectories and different time horizons from 2030 to 2080. The ILS team is working closely

with its supplier to be among the first clients to implement these additional views of risk as soon as possible.

IMPORTANT INFORMATION

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